Chapter 15

Product Distribution

Learning Goals

1. Discuss the value created by the distribution function.
2. Explain the major components of a distribution strategy.
3. Describe the various types of distribution channels and discuss the factors that influence channel selection.
4. Explain how a vertical marketing system differs from a traditional distribution channel.
5. Discuss the different degrees of market coverage.
6. Describe the various types of wholesaling intermediaries.
7. Explain the role of retailing in the U.S. economy.
8. Discuss the role of the physical distribution function.

Photo source: Courtesy of Staples, The Office Superstore.

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Chapter Overview

After products are produced and priced, they must be distributed to the marketplace. All organizations perform a distribution function. Del Monte products are distributed in supermarkets and convenience stores across the United States. Public libraries use bookmobiles to distribute their services to residents in outlying areas and to others who cannot get to the library.

The distribution function is vital to the economic well-being of society because it provides the goods and services desired by the consumer. Economists often describe the value of distribution in terms of *ownership, place,* and *time* utility. The marketer contributes to the product's value by getting it to the right place at the time the consumer wants to buy it and by providing the mechanism for transferring ownership. Firms that do not perform the distribution function effectively usually fail.

Distribution also provides employment opportunities. Salespeople, warehouse managers, truck drivers, stevedores, and forklift operators are all involved in distribution. Others service the products provided through a distribution network. Most people involved in distribution are classified as service personnel: Their role is to provide service to some other sector of the economy.

distribution channels
Paths that goods and services and title to them follow from producer to consumer.

physical distribution
Movement of goods from producer to user.

This chapter explores the two major components of an organization's distribution strategy: distribution channels and physical distribution. **Distribution channels** are the paths that goods—and title to them—follow from producer to consumer. They are the means by which all organizations distribute the goods and services they are producing and marketing.

The second major component of distribution strategy, **physical distribution,** is the actual movement of goods and services from the producer to the user. Physical distribution covers a broad range of activities. These tasks include customer service, transportation, inventory control, materials handling, order processing, and warehousing.

Distribution Channels

marketing intermediaries
Channel members operating between the producer and the consumer or industrial purchaser.

wholesaling intermediaries
Channel members selling primarily to retailers, other wholesalers, or industrial users.

retailers
Channel members selling goods and services to individuals for their own use rather than for resale.

Distribution channels are composed of **marketing intermediaries,** the persons or firms that operate between the producer and the consumer or industrial user. The two main categories of marketing intermediaries are wholesalers and retailers.

Wholesaling intermediaries are people and firms that sell primarily to retailers and other wholesalers or industrial users. They do not sell significant amounts to ultimate consumers. Sysco is a food-service wholesaler that buys more than 100,000 food products from manufacturers and resells them to some 150,000 restaurants, hotels, schools, hospitals, and other institutions. Sysco also distributes frozen food products to supermarkets, other retail stores, and military commissaries.

Retailers, by contrast, are persons or firms that sell goods and services to individuals for their own use rather than for resale. Retailers are the marketing intermediaries that consumers are most familiar with. The typical consumer buys food, clothing, personal-care items, furniture, and appliances from some type of retailer.

The Functions of Marketing Intermediaries

Marketing intermediaries perform various functions that assist in the operation of the distribution channel. These functions include buying, selling, storing, and transporting. Some intermediaries also sort and grade bulk products. Wholesalers of fresh produce, for example, receive bulk shipments of fruits and vegetables from growers; sort the produce according to a standardized grade, size, color, and degree of ripeness; and then repack it in smaller quantities for their customers, grocery stores, and restaurants. Intermediaries often provide other channel members with important marketing information. Many wholesalers and retailers use scanners and computer technology to measure the movement of producers' goods.

By buying a manufacturer's output, intermediaries provide the necessary cash flow for the producer to pay workers and buy new equipment. By selling, they provide consumers and other intermediaries with want-satisfying goods and services. The buying/selling function of intermediaries brings efficiency to the

Photo source: Courtesy of First Interstate Bancorp.

By installing Day & Night automated teller machines in two lodges at Mt. Bachelor ski resort in Oregon, the First Interstate Bank of Oregon creates time, place, and ownership utility for its customers. The First Interstate bank system distributes retail banking and financial services through 1,175 full-service offices and more than 1,400 automated teller machines in 21 states and the District of Columbia.

distribution channel. Intermediaries facilitate the exchange process because they reduce the number of transactions needed between the producer and the consumer. If each of four manufacturers sold directly to four customers, 16 transactions would be required. With an intermediary, the number of transactions is cut to eight.

Marketing intermediaries enter a channel of distribution that direct products from producers to ultimate consumers. Sometimes their efficiency wanes and they must be replaced, but someone in the channel must perform the vital distribution functions.

Major Marketing Channels

Hundreds of channels are used to distribute the output of U.S. 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.

The primary channels of distribution are shown in Figure 15.1. The first four channels are typically used to distribute consumer goods and services, while the last two are commonly used for industrial goods and services.

Channels to Consumer Products

Producer to Consumer. A direct channel from producer to consumer is used for most services but relatively few products. An artist who sells their creations at an art show is an example of this distribution channel. Other users include Avon, Amway, Fuller Brush, Electrolux, Kirby, some encyclopedia publishers, and farmer roadside stands.

Producer to Retailer to Consumer. Some food processors and manufacturers distribute their products directly to retailers. The apparel industry has many producers that sell directly to retailers through their own sales forces. Some manufacturers set up retail outlets in order to maintain better control over their channels. Agricultural processors, like S & W canned foods, Diamond Walnuts sell directly to retailers through their sales staff.

Producer to Wholesaler to Retailer to Consumer. The traditional channel for consumer goods, distribution to wholesalers, is used by thousands of small manufacturers that cannot afford to maintain an extensive field sales force to reach the retailing sector. Some of these manufacturers employ technical advisors to assist retailers and to secure marketing information, but they are not directly involved in the selling effort.

Producer to Wholesaler to Wholesaler to Retailer to Consumer. Several wholesalers are common in the distribution of agricultural (canned and frozen foods and cotton) and petroleum products (gasoline). An extra wholesaling level is required to divide, sort, and distribute bulky items.

Producer to Industrial User. The direct channel from producer to user is the most common approach to distributing industrial goods and services. FMC corporation selling conveyoring equipment to a factory. This channel is used for nearly all industrial products except accessory equipment and operating supplies.

Producer to Wholesaler to Industrial User. The indirect channel from producer to wholesaler to user is used for some industrial items. It is also used for small accessory equipment and operating supplies that are produced in large lots but sold in small quantities. John Deere, Ford and Case tractors sell to wholesalers who in turn sell to industrial users.

Selecting a Distribution Channel

The selection of a distribution channel depends on several factors: the market, the product, the producer, and the competition. These factors are often interrelated.

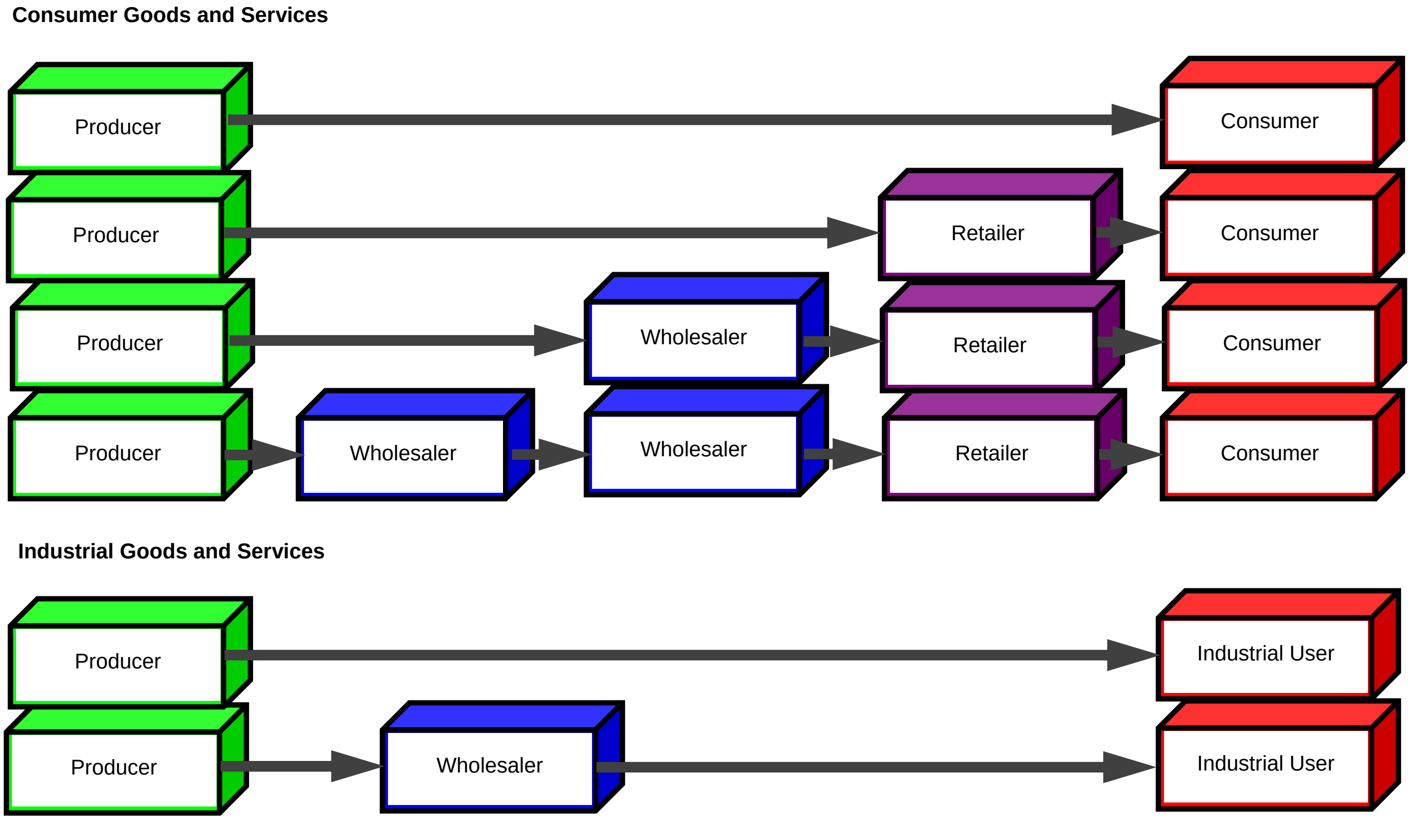
Market Factors. The most important consideration in choosing a distribution channel is that market segment the producer wants to reach. Changes in consumer buying behavior may influence a channel decision. For example, an increasing number of service firms are satisfying consumers' desire for convenience by providing home delivery. Diet-conscious shoppers can choose from an array of low-calorie, microwavable meals sold at the supermarket. But Doorstep Diets in San Diego offers the ultimate in convenience by delivering fresh, low-calorie meals directly to homes and offices. The service is especially appealing to two-income households and older people.

If the product can be marketed to more than one segment, multiple distribution channels may be required. In fact, multiple channels have become increasingly popular in recent years. Bowater Inc. uses multiple channels to distribute its stock computer paper. For years, Bowater salespeople have been selling computer paper directly to large-volume users such as corporations, banks, insurance companies, and government agencies. Today, individuals and small businesses are the fastest-growing segments for computer paper. To reach these markets, Bowater uses a variety of channels, including business forms distributors, paper merchants, office product dealers, and computer retail stores.[1]

Product Factors. In general, products that are complex, expensive, custom-made, and perishable move through shorter distribution channels. Boeing sells its 747 jet aircraft directly to British Airways and other commercial airlines. Each of the $100 million aircraft brings in about $25 million in gross profits.[2] Inexpensive and standardized products are typically sold through longer channels.

Producer Factors. Producers that offer a broad product line and have the financial and marketing resources to distribute and promote their products are more likely to use a shorter channel of distribution. American Greetings Corporation, for example, bypasses wholesaling intermediaries and sells directly to some 90,000 retail outlets worldwide. American Greetings produces 6 million greeting cards each day while also marketin gift wrap and ribbon, party goods, candles, stationery, calendars, and gift items. The company has the financial resources to conduct marketing research studies and to maintain its own network of distribution centers. In addition to a large sales force, American Greetings employs 12,000 part-time merchandisers who service retail customers on a weekly basis.[3]

Figure 15.1 The Primary Channels of Distribution



Competitive Factors. In choosing a distribution channel, producers must consider how well an intermediary performs the marketing functions. A producer may become less competitive when an intermediary fails to adequately promote the firm's products.

Campbell Soup Company revised its distribution channel in Japan for its Pepperidge Farm cookies because it was dissatisfied with the marketing efforts of its Japanese importer and local distributors. Cookie sales were low because the Japanese distributors did not aggressively seek new retail outlets or adequately promote the cookies. Even worse, the cookies suffered from a poor image. Consumers complained that the cookies were often stale, a problem resulting from products being stored too long in warehouses. To increase the sales of its cookies, Campbell marketers severed their relationship with the Japanese importer and distributors. Instead, they shortened the channel by selling their cookies directly to a retailer, 7-Eleven Japan, which operates 3,300 outlets in Japan. The new channel not only gives Pepperidge Farm wider exposure, but it also speeds up product delivery so Japanese consumers are assured of buying fresh cookies.[4]

Vertical Marketing Systems

In some instances, the efficiency of the distribution channel is disrupted because of conflicts among channel members. Conflict can occur between manufacturers and wholesaling intermediaries, such as the problems Campbell Soup had with Japanese distributors. Conflicts also develop between producers and retailers. World of Wonder Inc., marketer of Teddy Ruxpin, Lazer Tag, and other high-tech toys, alienated some of its key retail customers because it failed to deliver products when promised. By not receiving shipments of Lazer Tag guns in time for pre-Christmas

Firestone uses a corporate vertical marketing system in selling replacement tires it manufactures for automobiles and light trucks at 1,500 company-operated automotive service outlets as well as through independent dealers.

Photo source: Courtesy of The Firestone Tire & Rubber Company, Chicago, IL.

selling, some retailers not only lost sales but also were left holding large inventories of the guns when they arrived after the Christmas holidays.[5]

Efforts to reduce conflict and improve the efficiency of the distribution channels resulted in the development of vertical marketing systems. A **vertical marketing system (VMS)** is when two or more stages of a distribution channel are combined and managed by one firm. Vertical marketing systems have become a popular method of organizing a distribution channel. The three types of vertical marketing systems are administered, contractual, and corporate.

vertical marketing system (VMS)
Planned distribution channel organized to reduce channel conflict and improve distribution efficiency.

Administered VMS

An administered vertical marketing system is a distribution system dominated by one channel member. This channel member, often called the **channel captain,** can be a manufacturer, a wholesaler, or a retailer. Traditionally, the channel captain has been the manufacturer that provides the promotional budget to support a brand. In recent years, however, an increasing number of retailers and wholesalers are assuming the role of channel captain.

channel captain
Channel member dominating, the activities of a distribution channel.

Ernest & Julio Gallo Winery is an example of a dominant channel member. The California wine maker exercises considerable power over company-owned and independent distributors. One independent distributor describes it this way: "I sometimes feel like an Olympic runner who gets mad at his coach. Gallo pushes so hard you end up working more than you want." Gallo believes its success in selling wine is tied directly to wholesalers' performance with retailers. It encourages distributors to hire a separate sales force to sell to and service retail customers. It requires distributors to provide exceptional customer service, from setting up floor displays to dusting bottles on store shelves. Distributors are expected to follow detailed instructions set forth in a 300-page manual that covers everything from selling techniques to how much shelf space Gallo wines should occupy. Distributors benefit from Gallo's strong brand-name recognition and aggressive promotional support. They cooperate with Gallo because of the effective working relationship. In fact, most distributors owe their success to the winery's dominance of the channel.[6]

Contractual VMS

Contractual vertical marketing systems have had the greatest impact on distribution strategy. In such a system, the members are bound by a contractual agreement. Franchises such as Burger King, Baskin Robbins, and Century 21 are contractual Vertical Marketing Systems.

Another contractual system is the wholesaler-sponsored voluntary chain of retail stores. Under this agreement, a wholesaler provides marketing programs, merchandise selection, and other services to independent retailers that agree to purchase the wholesaler's products. McKesson Corporation, the nation's largest wholesale distributor of pharmaceuticals, established Valu-Rite, a voluntary chain of 2,500 pharmacies. McKesson provides Valu-Rite members with advertising circulars to generate store traffic and a private-label line of 170 products including vitamins, shampoos, and toothpaste.[7] Other wholesaler-sponsored chains are Sentry Hardware and IGA Food Stores. This system helps independent retailers compete with mass merchandisers and retail chains.

A third type of contractual VMS is the retail cooperative, in which retailers set up their own wholesaling operation. The retailers agree to buy a certain amount of merchandise from the wholesaling operation, but may choose a common store name and develop their own private-label line of goods. Retail cooperatives, such as Associated Grocers, are common in the grocery industry. Like the wholesaler-sponsored system, retail cooperatives help independent retailers compete with mass merchandise and large retail chains.

Corporate VMS

A corporate vertical marketing system is one in which channel members are owned by one enterprise. AT&T selected a corporate VMS by opening 450 AT&T Phone Centers to sell its telephone products to consumers. Liz Claiborne Inc. chose a corporate system to distribute a new line of sportswear under the First Issue label. Made by Liz Claiborne, the sportswear collection is sold at company-owned First Issue retail stores. Other well-known corporate systems are Firestone and Sherwin-Williams.

Market Coverage

Distribution strategy must be concerned with market coverage. There is probably only one Chevrolet dealer in your immediate area, but there may be several retail outlets that sell General Electric products. Coca-Cola can be found everywhere—in supermarkets, neighborhood convenience stores, service stations, vending machines, restaurants, and coffee shops. Different types of products require different kinds of distribution coverage. Three categories of marketing coverage exist: intensive distribution, exclusive distribution, and selective distribution.

Intensive Distribution. Coca Cola’s goal is to have their product within 100 feet of every consumer. The **intensive distribution** strategy is used by the marketer who tries to place a product in nearly every available outlet. Tobacco products, chewing gum, newspapers, soft drinks, popular magazines, and other low-priced convenience products are available in numerous locations convenient to the purchaser. This kind of saturation market coverage requires the use of wholesalers to achieve a maximum distribution effort.

intensive distribution
Strategy used to achieve market saturation by placing products in every available outlet.

The distribution of *USA Today* illustrates the concept of intensive distribution. The national daily newspaper is sold at hundreds of newsstands, newspaper vending machines, and retail outlets throughout the country to saturate the market and provide maximum convenience for the paper's 5.5 million readers. The ultimate form of convenience is the provision of time and place utility by direct delivery to the consumer's residence.

Exclusive Distribution. The opposite of intensive distribution, **exclusive distribution** occurs when the manufacturer gives a retailer or wholesaler the exclusive right to sell its products in a specific geographic area. Automobile companies probably provide the best examples of exclusive distribution in domestic markets. However, McDonalds fast food restaurants are set up on this basis also. Manufacturers sometimes set up effective distribution systems in foreign markets by granting resident firms the exclusive license to import or manufacture their products.

exclusive distribution
Strategy of giving a wholesaler or retailer the exclusive right to sell a product in a specific geographic region.

An exclusive distribution contract allows the retailer to carry an adequate inventory and provide the service facilities that might not be possible if competitive dealers existed in the area. Because the dealer has a guaranteed sales area, they are likely to make expensive investments in the business. In return, the manufacturer helps the dealer develop a quality image and promote its products effectively.

selective distribution
Market coverage strategy of selling a limited number of retailers to distribute a firm's products.

Selective Distribution. A degree of market coverage somewhere between intensive distribution and exclusive distribution, **selective distribution** occurs when a limited number of retailers are selected to distribute the firm's product lines. Television and electrical appliances are often handled in this manner. Manufacturers hope to develop a close working relationship with their dealers and often split advertising expenses with them. Extensive servicing and training facilities are usually maintained by the manufacturer to help the retailer do a good job of distributing the product.

Wholesaling

industrial distributors
Wholesaling intermediaries selling products to industrial users.

Wholesaling is crucial in the distribution channel for many products, particularly consumer goods. As we explained earlier in the chapter, wholesaling intermediaries are marketing intermediaries that sell to retailers, industrial purchasers, and to other wholesalers, but do not sell directly to the ultimate consumer. The traditional customer of the wholesaling intermediary is the retailer. Some wholesaling intermediaries, referred to as **industrial distributors,** sell to industrial users. Others sell to other wholesaling intermediaries.

Wholesaling intermediaries can be classified on the basis of ownership. Some are owned by manufacturers, some by retailers, and others are independent organizations. Figure 15.2 outlines the various categories of wholesaling intermediaries.

Manufacturer-Owned Wholesaling Intermediaries

Manufacturers may decide to market their products through company-owned sales branches and sales offices for a number of reasons. Producers of perishable products may operate their own distribution centers to speed the delivery of products directly to retailers. Complex products requiring installation and servicing and intensely competitive products requiring considerable promotional efforts are often distributed through company-owned channels. USG Corporation, marketers of gypsum board, acoustical ceiling tile, and other building products, established a network of 140 distribution centers to provide specialized service to construction contractors. The centers have boom-mounted trucks and other special lifting equipment to facilitate delivery of products not only to job sites but also to rooms on any level of a building under construction.[8]

sales branches
Manufacturer-owned marketing intermediaries that stock the items the firm distributes and process orders from inventory.

Sales branches stock the products they distribute and process orders from their inventory. They are common in the chemical, petroleum products, motor vehicle, and machine and equipment industries. Snap-On Tool Corporation has 55 sales branches that warehouse hand tools and other equipment that independent dealers sell to professional mechanics. Snap-On also maintains four large distribution centers that supply products to sales branches.[9]

sales office
Manufacturer-owned office for salespeople that provides close local contacts for regular and potential customers.

A **sales office** is exactly what it seems: an office for salespeople. Unlike sales branches, sales offices do not perform a storage function or warehouse any inventory. Manufacturers set up sales offices in various regions to provide a localized selling effort and to improve customer service.

Independent Wholesaling Intermediaries

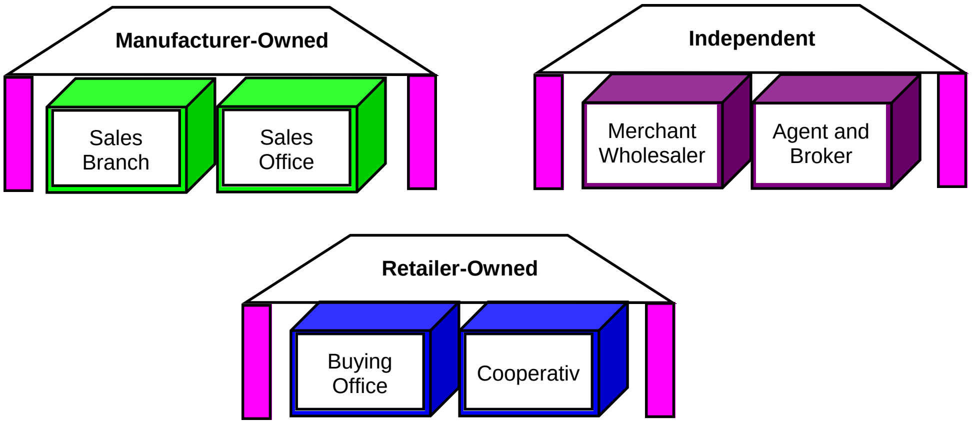
merchant wholesaler
Independent wholesaler that takes legal title to goods.

Most of the wholesaling organizations in the United States are independent wholesalers. They account for about two-thirds of all wholesale trade. Independent wholesalers can be classified as either merchant wholesalers or agent wholesalers.

full-function merchant wholesaler
Merchant wholesaler that performs many services in addition to taking legal title to goods.

A **merchant wholesaler** takes legal title to the goods it handles. This type of independent wholesaler can be broken down by the functions it performs. A merchant wholesaler that provides a complete assortment of services for retailers or industrial buyers is referred to as a **full-function merchant wholesaler.** An example is Fleming, a food wholesaler that offers more than 100 services to its retail customers. Among these services are store planning and development, financing, advertising, counseling and training for store managers and employees, consumer-oriented nutrition and health education programs, and an insurance

Figure 15.2 Categories of Wholesaling Intermediaries



program. Fleming also developed computer software programs that retailers can use for direct store delivery, accounts payable, labor scheduling, and shelf labeling. To help retailers computerize their store operations, Fleming formed a special computer support department that provides retailers with consultation, installation, and training.[10]

Another type of full-function merchant wholesaler is a **rack jobber,** a person who sets up and services a particular section of a retail store, such as bread, snack foods, paperback books, magazines, or toys. A rack jobber supplies the racks, sets up the display, stocks the merchandise, handles the pricing, and completely services the space, which is rented from a retailer on a commission basis.

rack jobber
Full-function merchant wholesaler that sets up and services a particular section of a retail store.

A merchant wholesaler that also takes legal title to the goods handled but provides fewer services is a **limited-function merchant wholesaler.** These wholesalers may, for example, warehouse goods but not deliver them to customers. Others may warehouse and deliver goods but not provide financing. The ultimate example of a limited-function merchant wholesaler is a **drop shipper.** This wholesaler forwards orders directly to the producer for shipment to customers. Drop shippers that operate in industries like lumber and coal never physically handle the products, although they do hold legal title.

limited-function merchant wholesaler
Merchant wholesaler that takes legal title to goods but provides few services.

drop shipper
Limited-function merchant wholesaler that takes legal title to goods but never physically handles them.

The second major category of independent wholesaling intermediaries— **agents and brokers**—never take title to the goods they handle, although they may or may not take possession of the goods. Agents and brokers bring buyers and sellers together and generally perform fewer services than merchant wholesalers. Boston Computer Exchange is a broker that brings buyers and sellers together for used personal computers. The firm's electronic network lists businesses and individuals that have purchased new computers and want to sell their older models, and firms that are interested in buying used models. Boston Computer Exchange receives a fee on every transaction, but it does not take title to or possession of the computers. Because most computer makers do not participate in the sale of used models, the broker serves as an important intermediary in the used personal computer market.[11]

agents and brokers
Independent wholesalers that never take title to goods but may or may not take possession of them.

Other examples of agent wholesalers include real estate brokers; sales agents of various types; manufacturers' agents, who sell noncompeting lines of several producers on a commission basis; commission merchants, who sell agricultural products for farmers; and auction houses.

Retailer-Owned Wholesaling Intermediaries

Some retailers have joined to form their own wholesaling organizations, either buying groups or cooperatives. The objective is to reduce costs or to provide some special service not readily available in the marketplace. To achieve cost savings through quantity purchases, independent retailers may form a buying group. Others may band together to form a cooperative, described in an earlier section as a contractual vertical marketing system.

Retailing

Retailers are the final link in the distribution channel. Because they are normally the only channel members with direct customer contact, it is essential that they operate with the times and within the environment in which they exist. Retailers are part of one of business's most dynamic settings, and special vigilance is required of them if they are to remain competitive. Kmart is an example of a successful retailing company, and its successes are to be admired, but much can also be learned from the study of retailing failures.

In the early 1960s, the S. S. Kresge and W. T. Grant retailing chains were about the same size. Both faced the problem of deciding what direction to take in the years ahead. Kresge President Harry B. Cunningham decided to take his firm down the discount path and changed the name to Kmart, now the third leading retailer in the United States.

Meanwhile, W. T. Grant watched and then moved to open larger stores and position itself somewhere between discounting and general merchandising. Grant began to promote big-ticket items such as furniture and major appliances, in contrast to its traditional soft goods and clothing. It stimulated sales of the big-ticket items by issuing credit cards. The consumer's image of Grant became confused, and the chain lost $177 million in 1975. New management reversed many of the earlier decisions, but it was too late. W. T. Grant declared bankruptcy a year later.

The Wheel of Retailing

wheel of retailing
Hypothesis explaining the evolution of retailing based on new types of retailers gaining competitive footholds by emphasizing low prices in exchange for limited services.

Institutions are subject to constant change as new stores replace older establishments. This process, called the **wheel of retailing,** suggests the retail structure is continually evolving as new retailers enter the market by offering lower prices through reductions in service. Supermarkets and discount houses, for example, gained their initial market footholds through low-price, limited-service appeals. The new entries gradually add services as they grow, and then become targets for competitive assault. Today's attractive Kmart stores, for instance, offer good lighting, wide aisles, adequate paved parking, and services such as credit-card purchasing. They are unlike those early discounters that often operated from Quonset huts set up on unpaved lots in declining factory districts.

Some retailers do not survive the evolutionary processes inherent in the wheel of retailing. Robert Hall and E. J. Korvette's were two major retailers that failed to adjust to a changing marketplace and are only memories today.

Size of the Retailing Sector

Most of the nation's 2 million retailers are small, independent stores, many of which have no paid employees. About half of all retail stores have sales of less than $100,000 each year. But some retail firms are big businesses with billions of dollars in sales.

Wal-Mart is the nation's largest retailer with sales of almost $94 billion. Each of the ten largest retailers in the United States, listed in Table 15.1, has sales exceeding $15 billion. About one-fifth of all retail stores are part of a chain, a group of two or more stores that are centrally owned and managed and handle the same product lines. The chain organization is common among shoe stores, department stores, supermarkets, and clothing stores. The Limited, The Gap, Foot Locker, and Safeway are examples of chain-store operations.

Types of Retailers

While most retailing activity is done in stores, about 10 percent of total retail sales occurs in a nonstore environment. Thus, retailers can be grouped into two broad categories: store and nonstore.

The major types of store retailers include department stores, specialty stores, variety stores, convenience stores, discount stores, off-price stores, factory outlets,

Table 15.1 The Ten Largest Retailers

Rank	Company	Sales (billions of dollars)
1	Wal-Mart Stores (Bentonville, Arkansas)	$ 67.3
2	Sears, Roebuck (Chicago)	54.9
3	Kmart (Troy, Michigan)	34.1
4	Kroger (Cincinnati)	22.4
5	Dayton Hudson (Minneapolis)	23.5
6	J. C. Penney (Dallas)	19.6
7	American Stores (Salt Lake City)	18.3
8	Price-Costco (Issaquah, Wash.)	18.2
9	Safeway Stores (Oakland, California)	16.4
10	Home Depot (Atlanta, Ga.)	15.4

Source: http://www.chicago.tribune.Com/news/500/list.htm; Tuesday, April 19, 1996 — 11 Jan 97.

catalog stores, supermarkets, hypermarkets, and warehouse clubs. These retailers are briefly described in Table 15.2. The major types of nonstore retailing are direct selling, direct-response selling, and automatic merchandising.

Direct selling involves direct contact between the sellers and the buyers. The home is the typical setting for direct-selling retailers such as Avon, Amway, Shaklee, Mary Kay Cosmetics, and Tupperware. But because women, the traditional target market of direct-selling firms, have entered the work force in record numbers, many of these retailers now sell their merchandise in offices and factories. Avon developed a special training program to instruct its 400,000 representatives how to sell makeup and jewelry to women at their place of work. Workplace sales now account for about 25 percent of total Avon sales.[12]

Direct-response retailing is conducted through mail or telephone orders of catalog merchandise or through telephone orders of merchandise on television. Mail-order selling began with a Montgomery Ward catalog in 1872. Today, mail-order houses range from Spiegel (clothing/home furnishings) to Jackson & Perkins (flowers) to L. L. Bean (primarily hunting and camping gear) to Harry and David (fruit). The fastest-growing area of direct-response retailing is home shopping, the use of cable television networks to sell merchandise through telephone orders.

Automatic merchandising, or the use of vending machines, is an excellent method of retailing various types of consumer goods. Candy, cigarettes, soft drinks, ice, fruit, ice cream, chewing gum, sandwiches, coffee, milk, hot chocolate, and soup are all available through vending machines. Even entertainment has been packaged for vending operations, beginning with jukeboxes and pinball machines and progressing to coin-operated video games.

How Retailers Compete

The different types of retailers compete on a variety of bases. Convenience stores and nonstore retailers focus on making the shopping experience fast and easy. Discount houses and off-price retailers attempt to compete by offering shoppers merchandise at low prices. Personalized attention and a wide variety of customer services are the keys to success of department store and specialty store retailers.

Many retailers seek to preserve or increase their sales volume by diversifying the products they offer for sale, a practice known as **scrambled merchandising.** Drugstores added soda fountains and then such items as magazines and newspapers. Now they sell cameras, small appliances, garden supplies, greeting cards, liquor, tobacco products, cosmetics, and toys. Some discount stores added pharmaceutical departments. Convenience stores such as 7-Eleven rent videotapes and sell fast food. Sears became a "financial supermarket" with its acquisition of Dean Witter Reynolds stock brokerage firm and Coldwell Banker real estate. When combined with Sears affiliate Allstate Insurance, today's Sears store is not only a retailer but a financial center as well.

scrambled merchandising Practice of retailers carrying dissimilar product lines to appeal to consumers seeking one-stop shopping.

Table 15.2 Types of Store Retailers

Type of Retailer	Description	Examples
Variety store	Offers a variety of low-priced merchandise.	F. W. Woolworth, Ben Franklin
Department store	Offers a wide variety of merchandise sold in departmentalized sections (furniture, cosmetics, clothing) and many customer services.	Marshall Field's, J. C. Penney, Sears Roebuck
Specialty store	Offers a complete selection in a narrow range of merchandise.	Shoe stores, furriers, camera shops, jewelry stores
Convenience store	Offers staple convenience goods, long store hours, rapid checkout, adequate parking facilities, and convenient locations.	7-Eleven, Circle K, Dairy Mart, gasoline stations
Discount store	Offers a wide selection of merchandise at low prices and few services.	Kmart, Target, Wal-Mart, Zayre
Off-price store	Offers designer or brand-name merchandise of many manufacturers at discount prices.	T. J. Maxx, Marshall's Loehmann's
Factory outlet	Manufacturer-owned store selling seconds, production overruns, or discontinued lines.	Nike outlet stores
Catalog store	Sells discounted merchandise from showrooms that display samples of products detailed in catalogs mailed to consumers.	Best Products, Service Merchandise, Zales, Gordon Jewelry
Supermarket	Large, self-service store offering a wide selection of food and nonfood merchandise.	Winn-Dixie, Kroger, Lucky, Safeway, A&P, Albertson's , Ralphs, Vons
Hypermarket	Giant-size store (at least three times the size of the average supermarket) offering food and general merchandise at discount prices.	Hypermart USA, Bigg's, Meijer, Carrefour, Fred Meyer
Warehouse club	Large warehouse-style store that sells food and general merchandise at discount prices to people who are part of its associated club membership.	Sam's Wholesale Club, Costco, PriceClub

Planning a Retail Strategy

Retailers face a unique marketing environment because they are the channel members that have direct contact with consumers. They must develop a marketing strategy that satisfies their target market. The products offered, their prices, the store's location, the way the store is promoted, and the store's atmosphere must all work together to project an image that appeals to a well-defined market segment.

Target Market. The starting point in developing a retail strategy is to identify the target market. Discount houses and off-price retailers target price-conscious consumers. Spiegel targets upscale career women under 40 with annual incomes of $43,000. Charisma, a New York fashion retailer, targets women who wear size 14 clothing and above. GapKids targets children between the ages of 2 and 12.

Product Strategy. After identifying a target market, retailers decide on general product categories, product lines, and the width and depth of assortment. Hypermarkets sell a wide range of merchandise, up to 70,000 different items, but the depth of assortment is very limited. Hypermarket USA's paint department, for example, sells only one color: white. Specialty retailers, on the other hand, offer a limited product line in depth. The Sock Shop in New York sells 900 styles of socks, including many one-of-a-kind items such as a pair of children's socks that plays a tune when squeezed.

The growth of specialty retailers and discount houses in recent years has forced other retailers to change their product strategy. Many department stores no longer sell toys, consumer electronics, and furniture because of increased competition from

Supermarkets, like many other retailers, practice scrambled merchandising to provide customers with the convenience of one-stop shopping. At Lucky Stores supermarkets, shoppers can choose from an assortment of fresh-cut flowers and plants in the stores' floral department. Shoppers can also have their prescriptions filled at in-store pharmacies.

retailers known as "category killers," discount chains that sell only one category of products. Examples are Toys "R" Us (toys); The Wiz, Silo, and Best Buy Superstores (electronics); Tower Records (musical recordings); and Conrans and Home Express (home furnishings). Toys "R" Us, which offers 18,000 toys at discount prices, has captured 20 percent of the $12.5 billion toy market, and the firm's market share is expected to climb to 40 percent by 1997. Department stores and general merchandisers like Kmart that do not specialize in toys and carry only 3,000 items cannot compete with Toys "R" Us. While many department stores are eliminating toys from their product mix, Kmart and Service Merchandise are trimming back their toy inventories. To compete with category killers in appliances and consumer electronics, Sears decided to expand its product offerings. In addition to selling its Kenmore private label brand, Sears is now selling national brand merchandise such as Sony, Panasonic, and Pioneer electronics.[13]

Customer Service Strategy. A high level of customer service is an important competitive tool of department and specialty stores. These retailers generally offer a full complement of services, including gift wrapping, alterations, and delivery. Because services add to the retailer's operating costs, discount stores keep prices down by offering few services.

Many retailers provide services that cater to consumers' desire for convenience. A small New York retailer, Mr. Dry Clean, installed a computerized machine that allows customers to drop off and pick up their clothes 24 hours a day. The system works much like an automated teller machine. Customers pass a credit card through an electronic reader that signals a robot to bring an empty bag to the machine's window. They fill the bag and write out a receipt. A day later, they can pick up their clothes by again inserting their credit card, which tells the robot which bag of clothes to bring to the window. Mr. Dry Clean does not charge customers for this added convenience.[14]

Pricing Strategy. Retailers determine the price consumers pay for goods and services. They base their prices on the cost of merchandise they purchase from other channel members. Discount retailers buy in large volume so they can offer merchandise at lower prices. Retailers' prices influence consumers' perception of the store. The $615 designer dress featured in the Saks Fifth Avenue advertisement in Figure 15.3 distinguishes Saks as an upscale fashion retailer.

Location/Distribution Strategy. Location is the primary distribution decision retailers make. Will they locate in a downtown business district, an isolated area, or a neighborhood or regional shopping center? A good location is often the difference between success and failure in retailing.

The location decision depends on the retailer's size, financial resources, product offerings, and target market. When populations shifted from urban to suburban areas in the 1950s, department stores, traditionally located in downtown districts, opened branches in suburban shopping malls to provide convenient locations for their target customers. A recent retailing trend is the specialty store shopping center. Designed to target upscale consumers, these centers consist only of specialty stores and restaurants.

Another factor in retailers' distribution strategy is making sure adequate quantities of products are available when customers want to buy. Circuit City Stores, a specialty retailer of audio and video products, operates two automated distribution centers to supply its 138 retail stores. The centers speed the delivery of products to stores and give Circuit City cost advantages over competitors, such as lower inventory requirements, less storage space and more selling space in stores, quick inventory turnaround, and less pilferage.[15]

Promotional Strategy. Retailers design advertisements and develop other promotions to communicate their store image and to provide information about their store—location, type of merchandise, prices, and store hours. Small, independent retailers with limited budgets generally place advertisements in local newspapers and send local residents mailers that announce special sales. Large retailers spend millions of dollars promoting their stores. Wal-Mart, with more than 1,000 outlets, spends about $30 million each year on advertising, mostly for television commercials. All Wal-Mart advertising, whether for clothing, electronics, or health and beauty products, focuses on a central theme—"everyday discount prices"—to project the store's image.[16]

atmospherics
Physical characteristics and amenities that attract customers and satisfy their shopping needs.

Store Atmosphere. Consumers' perception of a retailer is also shaped by **atmospherics,** the physical characteristics of a store and amenities provided by the retailer. A store's exterior should draw customers inside, and the interior should induce shoppers to make purchases. All interior elements—store layout, merchandise presentation, lighting, color scheme—should appeal to the target market. Consider the environment of WaldenKids, a chain of stores that sells children's books, educational toys, and games. Children can enter the store by crawling through a carpeted tunnel. Once inside, they are greeted by a video monitor that plays cartoon fairy tales. Painted in bright colors of blue, red, yellow, and green, the stores are equipped with stages for special events such as puppet shows and book readings. Children are encouraged to try computer games and play with toys. With each purchase, kids are given a "visa" stamp as part of a Passport to Adventure program. When they collect 12 visas, they get a free watch.[17]

Physical Distribution

Physical distribution, the second of the two major components of distribution strategy, involves the actual movement of goods from the producer to the user. This covers a broad range of activities, including customer service, transportation, warehousing, materials handling, inventory control, and order processing. Figure 15.4 shows the components of a physical distribution system.

Physical distribution is important for two reasons. First, physical distribution activities account for, on average, one-fifth the cost of a manufactured good. In the past, businesses focused on improving the efficiency of production to lower product costs. In recent years, however, managers have begun to realize that reducing the costs of physical distribution activities is another key to improving productivity and gaining significant competitive advantages. Physical distribution is also important because customer satisfaction, to a large extent, depends on reliable movements of

Figure 15.3 Projecting a Retail Image through Pricing

Source: Courtesy of Saks Fifth Avenue

goods and services.

The study of physical distribution should include all factors involved in moving goods rather than concentrating on individual aspects of the process. Because the objective of physical distribution is to provide a specified level of customer service at the lowest possible overall costs, total costs should be considered. Suboptimization can occur if individual rather than total costs are considered.

Physical distribution costs are often interrelated; a change in one element may affect other elements. Low inventory levels may reduce warehousing costs, but they can result in increases in transportation and order-processing costs. The interrelationship of these costs should be emphasized in any physical distribution strategy.

Manufacturers, processors, wholesalers, and retailers have reduced the costs of physical distribution and improved customer service by applying computer-based electronics and automation. Computer linkups that enable channel members to share information speed up order processing and delivery and help reduce inventory on hand.

Customer Service Standards

Customer service standards involve the quality of service a firm provides for its customers. Managers frequently set quantitative guidelines for customer service. For example, a firm may stipulate that all orders be processed within 48 hours of receipt. A retailer may require that salespeople approach shoppers within two minutes.

customer service standards Quality of service that a firm's customers will receive.

Sometimes the customer sets the service standards and chooses suppliers that meet or exceed those standards. The University of Nebraska Medical Center in Omaha needed additional storage space for the hundreds of supplies its staff uses each day. Hospital managers considered building a new warehouse but could not justify the $500,000 construction cost. Instead, the managers developed a stockless

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inventory program to eliminate the need for additional storage space. They searched for a firm that could deliver medical supplies on a daily basis and meet a 98 percent "fill rate" to assure that supplies were available when needed. These standards were detailed in a contract the hospital signed with its supplier, Baxter International. Baxter's local distribution center stocks 500 of the hospital's most critical medical and surgical supplies. To ensure availability, Baxter makes daily deliveries on a just-in-time basis to the hospital. Baxter also presorts the supplies so they can be delivered directly to specific nursing stations and medical departments. Baxter has consistently exceeded the delivery standards established by the hospital.[18]

Transportation

The form of transportation used to ship products depends primarily on the kind of product, the distance, and the cost. The physical distribution manager has a number of companies and modes of transportation from which to choose.

Transportation Companies. Transportation companies are classified into four basic types: common carriers, contract carriers, private carriers, and freight forwarders. A **common carrier** offers to perform services within a particular line of business for the general public. One example is a truckline operating in an area where general merchandise is handled. The truckline is available to serve all the people in the area who offer it general merchandise to haul. However, it may decline to handle such items as liquid petroleum gas or aviation gas. Examples of common carriers are United Airlines and Consolidated Freightways.

common carrier
Transportation firm that performs services within a particular line of business for the general public.

Contract carriers transport goods for hire by individual contract or agreement. They do not offer to perform services for the general public; instead, they usually offer services that meet the special needs of their customers. Contract carriers are most frequently engaged in business as owner/operator motor carriers. Usually they solicit large shipments from a particular shipper to a particular recipient.

contract carriers
Transportation firms that carry goods for hire by individual contract or agreement and not for the general public.

Private carriers transport their own property or deliver their services in their own vehicles. Amoco has its own fleet of oceangoing crude oil carriers. Hon Industries, a manufacturer of office furniture and products, maintains its own fleet of trucks to provide customers with fast delivery and reduce product damage. The Hon trucks, painted with the company name and logo, also serve as advertisements. Federal Express has a ground fleet of more than 17,000 vehicles and 145 airplanes to ensure fast, on-time delivery for its package service.

private carriers
Companies that transport their own goods in their own vehicles.

Freight forwarders differ from the other carriers in that they do not own any of the equipment used in intercity carriage of freight. They are common carriers that lease or contract bulk space from other carriers such as the airlines and railroads and resell this space to small-volume shippers. The freight forwarder picks up the merchandise from the shipper, loads it into the equipment of whatever carrier is being used, delivers it to its destination, and takes care of all the billing involved.

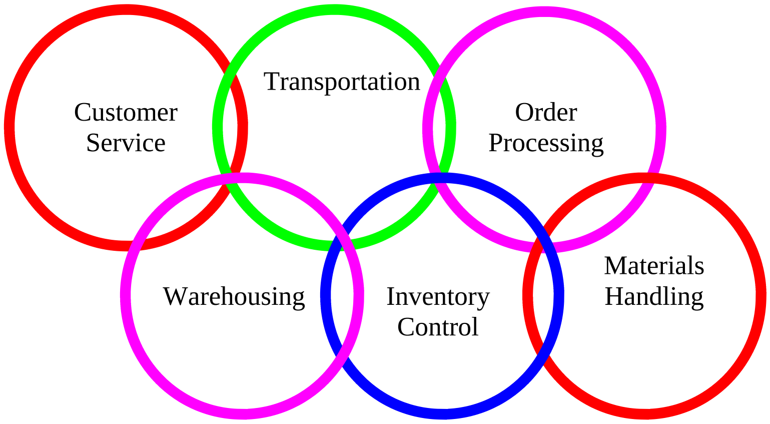
Freight forwarders provide shippers the advantage of better, less-expensive service, and the carriers do not have to handle many small shipments and the billing for them. A further advantage of freight forwarding is that the forwarder knows at all times where each piece of freight is while it is in transit. This intermediary saves money for everyone and makes for improved service.

freight forwarders
Common carriers that purchase bulk space from other carriers by lease or contract and resell this space to small volume shippers.

Modes of Transportation. The five major modes of transportation are railroads, trucks, water carriers, pipelines, and air freight. The cost of using each mode is usually related to the speed at which it operates. Faster modes typically cost more than slower ones.

Railroads. About 36 percent of all domestic intercity freight is carried by the railroads, most of which are common carriers.[19] Intercity freight is measured in terms of ton-miles, the movement of one ton of freight for a distance of one mile. None of the nation's railroads is a contract carrier, and only a few (owned and operated by mining companies, lumbering operations, and very large producers like

Figure 15.4 Interconnecting Components of the Physical Distribution System



steel mills) are private carriers.

Railroads are the most efficient mode for transporting bulk commodities over long distances. For example, about 70 percent of grain is transported by rail. The Norfolk Southern advertisement in Figure 15.5 describes the efficiency of using rail to transport grain. Other types of products most often transported by rail are lumber, iron and steel, coal, automobiles, and chemicals.

Carload freight is the kind of freight railroads prefer to handle. It is provided in shipper-loaded cars to be delivered to someone who will unload the cars, which costs less because railroad personnel do not have to do the loading and unloading. Companion services to carload freight are containerization and trailer-on-flatcar (piggyback) services. Railroads also offer trainload services to shippers of bulk commodities like coal and iron ore. Some trains of this type never stop; they use continuous loading and unloading equipment.

In an effort to improve service standards and to capture more of the market, railroads are offering services such as run-through trains, which bypass congested terminals, and unit trains, which are used exclusively by a single customer that pays lower rates for each shipment.

Trucks. Highway transportation accounts for about 25 percent of domestic freight shipping. The principal advantage of highway transportation over other modes is flexibility. A truck carrier can operate wherever there is a road, while trains depend on rails and aircraft on airports large enough to accommodate them. A number of transcontinental highway carriers move freight coast to coast. However, highway carriers are most efficient for distances up to 300/400 miles. For longer distances, railroads are more advantageous. Railroads are also diversifying into truck carriers for inter-state transportation.

Products most often handled by motor carriers are clothing, furniture and fixtures, food, leather and leather products, and machinery. Highway carriers are divided into common carriers, contract carriers, and private carriers.

The typical highway common carrier, with its own pickup and delivery equipment, picks up freight at the shipper's door and delivers it to a freight terminal, where it is loaded into larger trucks for delivery to a terminal in another city. There it is unloaded and delivered by smaller vehicles. Contract highway carriers can frequently offer lower rates than common carriers because they serve a limited number of customers, deal in volume shipments, and operate only when they have a profitable load. Wholesale grocery companies, supermarket chains, department stores, manufacturing firms, and mining companies all engage in private-carrier operations.

Figure 15.5 Using Rail to Efficiently Transport Grain

Source: Courtesy of Norfolk Sourthern Corporation. Created by J. Walter Thompson Company, USA

Water Carriers. Water transportation is slow but one of the least costly of all modes of transportation. The two basic types of water carriers are the inland or barge lines and the oceangoing deep water ships. Oceangoing ships operate on the Great Lakes, between United States port cities, and in international commerce.

Nearly 16 percent of the volume of domestic intercity freight is handled through the inland waterways of the United States. The system of waterways includes the Mississippi, Ohio, Tennessee, and other rivers; inland canals; and the Great Lakes. Much of this freight, especially on the rivers and canals, is transported on barges pushed by mammoth tugs. Great Lakes traffic is handled by specially built ships, some of which are 1,000 feet long. This low-cost type of transportation lends itself mainly to the hauling of bulky commodities such as fuel, oil and petroleum products, coal, chemicals, and minerals.

Pipelines. Twenty-four percent of intercity freight is handled by pipelines, which convey primarily petroleum products ranging from crude oil to highly refined products and natural gas. Some successful experiments have been made in handling other bulk commodities, such as coal, this way. These commodities are ground into small pieces and mixed with water to form a slurry, which is then pumped through the pipelines. Pipelines can transport many liquids and gases more cheaply and more quickly than other modes of transportation.

Air Freight. While still dwarfed by other transportation modes, carrying less than three-tenths of 1 percent of all freight, domestic air freight has become increasingly important in recent years. Air freight is usually limited to valuable products such as furs and computers or perishable products such as flowers and live lobsters.

The certificated airlines of the United States are all common carriers. Some of them (as well as a group of carriers known as *supplemental carriers)* engage in charter work, which is a form of contract carriage. Many business organizations own or lease aircraft that are operated to transport their personnel or, in some situations, their freight; this is defined as *private carriage.*

Table 15.3 compares speed, reliable delivery, shipment frequency, location availability, handling flexibility, and cost associated with the five modes of transportation.

Warehousing

warehousing
The storage of goods.

storage warehouse
Warehouse that stores goods for relatively long time periods.

distribution warehouse
Warehouse that stores goods for a short time; often used for gathering and redistributing products.

Warehousing is the physical distribution activity that involves the storage of products. The two types of warehouses are storage and distribution. A **storage warehouse** keeps products for relatively long periods of time and is used most often for products that are seasonal in supply or demand, such as farm products. Tri-Valley growers process and stores canned fruits for distribution to retail outlets.

A **distribution warehouse** is used to gather and redistribute products. Distribution warehouses try to keep products for as short a time as possible. They are mainly used by manufacturers that have several small customers in various, distant locations or by firms that have several suppliers in one area. Frito-Lay and Coca Cola set up distribution warehouses for deliverymen that place these products in various retail outlets.

Materials Handling and Protective Packaging

materials handling
Movement of goods within a firm's warehouse, terminal, factory, or store.

The physical distribution activity of moving items within plants, warehouses, transportation terminals, and stores is referred to as **materials handling.** Equipment used to handle goods includes forklift trucks, conveyor belts, and trucks.

Unitization and containerization have improved materials handling in many firms. *Unitization*—combining as many packages as possible into one load that can be handled by a forklift truck—is sometimes done with steel bands or shrink packaging. *Containerization*—putting packages, usually made up of several unitized loads, into a form that is relatively easy to transfer—has significantly reduced transportation costs for many products by cutting materials handling time, theft, insurance costs, damage, and scheduling problems. Containerization significantly improved handling for rail, steamships and trucking.

Inventory Control

inventory control
Function of controlling all costs associated with inventory.

Inventory control deals with the management of inventory costs such as storage facilities, insurance, taxes, and handling costs. Holding inventory is expensive: $1,000 of inventory held for one year can cost a company $250.

To reduce inventory costs, many firms use computerized inventory control management systems. Wetterau, a food-service wholesaler, installed on-line inventory control systems in its distribution centers to increase the efficiency of warehousing and transportation and to provide retail customers with information that helps them make buying decisions.

Another approach to controlling inventory is the just-in-time (JIT) inventory system. Channel members other than producers benefit from JIT. The Baxter example cited earlier reduced the University of Nebraska Medical Center's inventory by $100,000 and opened up 6,000 square feet of space the center now uses for other purposes.

Order Processing

order processing
Function of handling the preparation of an order for shipment.

The physical distribution activity of **order processing** concerns the actual preparation of an order for shipment. It also includes the receipt of orders. Lawson Products, a distributor of repair and maintenance products for large equipment, uses six facsimile machines to receive incoming orders. The machines enable Lawson to meet its objective of processing orders within 24 hours.

Order processing is closely linked to the firm's customer service standards. For Pizza Hut, fast and efficient order processing is crucial in completing pizza deliveries to homes within a half-hour. With the help of computers, Pizza Hut can process orders in just 17 seconds. Incoming calls for home delivery are received at a

Table 15.3 Comparing the Modes of Transportation

	Factor					
Mode	**Speed**	**Dependability in Meeting Schedules**	**Frequency of Shipments**	**Availability in Different Locations**	**Flexibility in Handling**	**Cost**
Rail	Average	Average	Low	Extensive	High	Medium
Water	Very slow	Average	Very low	Limited	Very high	Very low
Truck	Fast	High	High	Very extensive	Average	High
Pipeline	Slow	High	High	Very limited	Very low	Low
Air	Very fast	High	Average	Average	Low	Very high

customer service center where order takers enter customer requests on computers and send printed instructions to a Pizza Hut closest to each customer.[20]

Order processing and the other physical distribution activities performed by channel members ensure that customers receive goods and services at the right time and in the right place.

Summary of Learning Goals

1. **Discuss the value created by the distribution function.** The distribution function creates time, place, and ownership utility. Marketers contribute to the product's value by getting it to the right place at the time the consumer wants to buy it and by providing the mechanism for transferring ownership.

2. **Explain the major components of a distribution strategy.** The two major components of a distribution strategy are distribution channels and physical distribution. Distribution channels are the paths that goods and services and title to them follow from producer to consumer. Physical distribution involves all the activities channel members perform in moving goods and services.

3. **Describe the various types of distribution channels and discuss the factors that influence channel selection.** Distribution channels vary in length. Some channels are short, with goods and services moving directly from manufacturer to consumer. Others are longer, involving channel members such as retailers and wholesaling intermediaries. Selecting a channel depends on various factors, including the product, market, producer, and competition.

4. **Explain how a vertical marketing system differs from a traditional distribution channel.** A vertical marketing system (VMS) is a planned distribution system. It contrasts with traditional distribution channels, which were unplanned and developed over time. There are three types of vertical marketing systems. An administered VMS is dominated by one channel enterprise. A contractual VMS is one in which the members are bound by contractual arrangements. A corporate VMS is owned by a single enterprise.

5. **Discuss the different degrees of market coverage.** Three categories of market coverage exist: (1) intensive distribution, in which products are placed in many outlets; (2) exclusive distribution, in which a firm has exclusive rights to sell a product in a certain geographical area; and (3) selective distribution, in which a limited number of retailers distribute a firm's products.

6. **Describe the various types of wholesaling intermediaries.** Three broad categories of wholesaling intermediaries exist. Manufacturer-owned wholesaling intermediaries consist of sales offices and sales branches.

Independent wholesaling intermediaries consist of merchant wholesalers (who take title to the goods they handle) and such agents and brokers as auction houses, selling agents, manufacturers' agents, and commission merchants (who do not take title). Retailer-owned wholesaling intermediaries include retail cooperatives and buying offices.

7. Explain the role of retailing in the U.S. economy. The nation's 2 million retailers sell goods and services to persons for their own use rather than for resale. Retail institutions are constantly changing. Two factors make it difficult to describe and classify them: the wheel of retailing and the trend toward scrambled merchandising. Retailers fall into two general categories: store and nonstore. Store retailers include general stores, department stores, specialty stores, convenience stores, discount houses, off-price retailers, factory outlets, catalog showrooms, supermarkets, hypermarkets, and warehouse clubs. Nonstore retailing includes direct selling, direct-response retailing, automatic merchandising, and teleshopping.

8. Discuss the role of the physical distribution function. Physical distribution is an important part of distribution strategy. Because its objective is to maximize the level of customer service, marketers must consider total costs. The various elements in physical distribution include customer service standards, transportation, warehousing, materials handling, inventory control, and order processing.

Questions for Review and Discussion

1. Outline the types of utility relevant to distribution strategy.

2. Differentiate between wholesalers and retailers.

3. Draw and explain the distribution channels for consumer goods and for industrial goods and services. How does a marketer select a specific channel?

4. What is a vertical marketing system? What are the major types of vertical marketing systems?

5. Differentiate among intensive, exclusive, and selective distribution strategies. Cite examples of each.

6. Explain how independent wholesaling intermediaries differ from both: (a) manufacturer-owned wholesaling intermediaries and (b) retailer-owned wholesaling intermediaries.

7. Identify and explain an example of the wheel of retailing in operation.

8. Cite a local example (if one exists) of a variety store, department store, specialty store, convenience store, discount store, off-price store, factory outlet, catalog store, supermarket, hypermarket, warehouse club, and "category killer."

9. Why have many retailers adopted a scrambled merchandising strategy?

10. Differentiate among a common carrier, contractual carrier, private carrier, and freight forwarder. Cite examples of each.

11. The Green House of Encinitas, California, (now 50 percent owned by McCormick Co.) is a grower of fresh packaged herbs. The firm offers 19 types of herbs to retailers willing to order a minimum of 20 dozen packages. Since most of the herbs have to be used within five to seven days, The Green House uses ziplock bags for packaging. The orders are then wrapped in foam and ice packs for shipment overnight by Federal Express. Describe the importance of distribution strategy to The Green House. What other marketers face similar distribution problems?

12. Which distribution channel would you select for the following:
a. A car seat for infants
b. An income-tax preparation service
c. Mack trucks
d. Pears

13. Which types of market coverage would be best for the following products?
a. Rolls-Royce automobiles
b. Bubble gum
c. Men's cologne
d. Bulldozers and other earth-moving equipment

14. Comment on the following statement: "Hypermarkets are simply the logical extension of the scrambled merchandising concept."

15. Which transportation mode would you suggest for the following:
a. Sheet steel
b. Natural gas
c. Premium electronic components
d. Breakfast cereal

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