

7.8: Marketing Strategy and Place

Learning Objectives

1. Understand the role of place in the marketing mix and the importance of place to a company.
2. Understand the different distribution strategies that a small business can follow.
3. Explain the importance of logistics to small businesses.

No matter how great a product or a service may be, customers cannot buy it unless it is made available to them onground or online or both. This is the role of the **place** P in the marketing mix—to get a product or a service to the target market at a reasonable cost and at the right time. Channels of distribution must be selected, and the physical distribution of goods must be managed.

Channels of Distribution

A small business may choose the direct, retail, wholesale, service, or hybrid channels. In general, business-to-business (B2B) distribution channels parallel those of business-to-consumer (B2C) businesses.

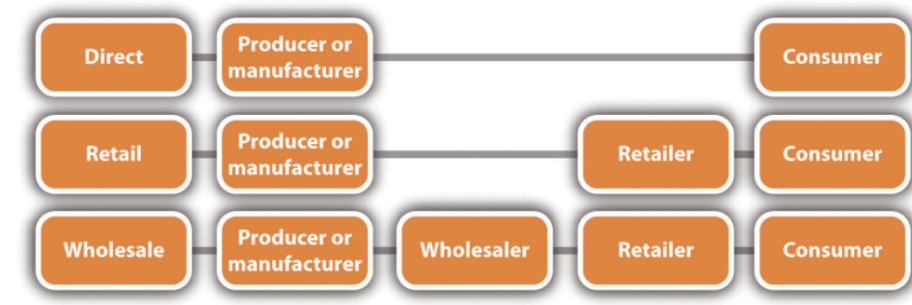


Figure 7.8.1: Channels of Distribution, Direct, Retail and Wholesale

Direct Channel

Many small businesses use the **direct channel**. The direct channel involves selling directly to the final consumer with no **intermediaries** (retailers and wholesalers, also known as middlemen) in the process. The direct channel provides close contact with the customer and full control of all aspects related to the marketing of a company's products. Dana-Nicoleta Lascu and Kenneth E. Clow, *Essentials of Marketing* (Mason, OH: Atomic Dog Publishing, 2007), 300. The Sugar Bakery & Sweet Shop in East Haven, Connecticut (winner of the Food Network's 2010 "Cupcake Wars"), uses the direct channel, as does the local farmer when selling fruits and vegetables to the local population. Michael Dell started out by selling computers from his dorm room, and the founders of Nantucket Nectars began their business by selling their home-brewed fruit drinks to boaters in Nantucket Harbor. [\[citation redacted per publisher request\]](#). Many B2B sellers also use the direct channel. Consolidated Industries, Inc., for example, sells helicopter parts directly to Sikorsky Aircraft and airline parts directly to Boeing. (See Chapter 5 for more information on Consolidated Industries, Inc.)

Video Clip 7.8.1:

Sugar Bakery & Sweet Shop



The story of the winner of the Food Network's 2010 "Cupcake Wars."

Video Link 7.8.2:

iPhone App Beefs Up Sausage Sales

How an iPhone app has made business easier and better for a mobile sausage vendor.



Service businesses use the direct channel because there is no way to do otherwise. Services are performed and consumed at the same time, so there is no role for intermediaries. Tanning salons, home repair services, legal services, real estate services, and medical services all deliver directly to the consumer. Online services are also delivered directly to the final consumer, such as [Carbonite](#) and [Legal Zoom](#).

The Internet has increased the opportunities for small businesses to use the direct channel as the only means of distribution or as an additional sales channel. For example, [Vermont Teddy Bear](#) in Shelburne, Vermont, uses the Internet as its primary sales channel. Its only other channel is its onground factory tours that are offered year-round.

Video Clip 7.8.3:

Vermont Teddy Bear Company



How the company started and how it has grown. It now makes 5,000 bears a day.

Retail Channel

Many small businesses may choose to produce or manufacture products and distribute them to retailers for sale. This is considered an **indirect channel** because the retailer is an **intermediary** between the producer or manufacturer and the final consumer. If a small business that makes one-of-a-kind, handcrafted picture frames sells its frames to a picture-framing business that in turn sells the frames to its customers, this would be an example of using the retail channel. An online business that sells products made by several producers or manufacturers would also be using the retail channel—and would be called an e-tailer.

Video Clip 7.8.4:

Future Vision of Retailing



Microsoft's vision of future retailing.

Video Clip 7.8.5:

YOUREality Retail Visualization Product



A new software product that enables customers to interact with products in their own space—really, really cool.

Although selling through retailers may expand the distribution coverage to a small business's target market, the business must give up some control over pricing and promotion. In addition, the business should expect to get a wholesale price from the retailer that is significantly lower than what it would get if it sold directly to the final consumer.

Wholesale Channel

Wholesalers are also **intermediaries**. A wholesaler is “a [large or small] business that sells to retailers, contractors, or other types of businesses (excluding farms), but not to the general public (or at least not in any significant amount).” “Monthly & Annual Wholesale Trade Definitions,” *US Census Bureau*, October 22, 2010, accessed December 1, 2011, www.census.gov/wholesale/definitions.html. A small business that chooses to use wholesalers is also using an **indirect channel** of distribution. Using a wholesaler makes sense when a business makes a product that it wants to sell in many stores that would not be easily or conveniently reachable through the direct channel or the retail channel. For example, Kathleen King's small gourmet baked goods company (now known as Tate's Bake Shop) earns much of its annual revenue from the wholesale distribution of its baked goods to approximately one hundred gourmet shops on Long Island, in New York City, and in other states. Dana-Nicoleta Lascu and Kenneth E. Clow, *Essentials of Marketing* (Mason, OH: Atomic Dog Publishing, 2007), 300. Her products can be viewed online at www.tatesbakeshop.com, and her story—including some valuable business lessons that she learned along the way—can be viewed in [Note 7.107 "Video Clip 7.17"](#).

Video Clip 7.8.6:

Tate's Bake Shop



The story of Kathleen King's gourmet baked goods business—and some important business lessons learned.

Although any small business that uses wholesalers will see a reduction in profit, there are several advantages to wholesaling. For example, wholesalers are able to sell and promote to more customers at a reduced cost, they can deliver more quickly to buyers because wholesalers are closer to them, and wholesalers can inventory products, thereby reducing inventory costs and risks to their suppliers and customers. Philip Kotler and Kevin Keller, *Marketing Management* (Upper Saddle River, NJ: Pearson Prentice Hall, 2009), 458–59. Small businesses that produce only one or a few products commonly use the wholesale channel of distribution. Retail outlets may not be placing orders from the small business because it is not known. The wholesaler can put the product in front of them. Jeff Madura, *Introduction to Business* (St. Paul, MN: Paradigm Publishing, 2010), 445.

Multichannel Distribution

A small business may choose a **multichannel distribution system (or hybrid channel)**. This channel option uses two or more channels of distribution to reach one or more customer segments, offering customers multiple purchase and communication options. Philip Kotler and Kevin Keller, *Marketing Management* (Upper Saddle River, NJ: Pearson Prentice Hall, 2009), 429; Dana-Nicoleta Lascu and Kenneth E. Clow, *Essentials of Marketing* (Mason, OH: Atomic Dog Publishing, 2007), 303. The multichannel approach offers three important advantages: Philip Kotler and Kevin Keller, *Marketing Management* (Upper Saddle River, NJ: Pearson Prentice Hall, 2009), 429.

1. **Increased market coverage.** More customers are able to shop for a company's product in more places, and customers who buy in more than one channel are often more profitable than one-channel customers.
2. **Lower channel cost.** Selling by phone or online is cheaper than selling via personal visits to small customers.
3. **More customized selling.** A technical sales force could be added to sell more complex equipment.

The hybrid approach works well for small businesses. Tate's Bake Shop sells directly through its store in Southampton, New York, and online. It sells indirectly to gourmet retailers such as Sugar and Spice in Chappaqua, New York, through its wholesalers. Local restaurants also use the multichannel approach when customers can order online or by phone and then pick up the food at the restaurant.

Physical Distribution (Logistics)

Physical distribution (logistics) involves "all the activities involved in the physical flow and storage of materials, semifinished goods, and finished goods to customers in a manner that is efficient and cost effective." Dana-Nicoleta Lascu and Kenneth E. Clow, *Essentials of Marketing* (Mason, OH: Atomic Dog Publishing, 2007), 306. Logistics can be performed by the producer or the manufacturer, intermediaries, or the customer. Deciding on the right logistics solution may be the differentiator that puts a company ahead of its competition. Jennifer Nichols, "Guide to Transportation and Logistics Companies for Small Business," *Business.com*, accessed December 1, 2011, www.business.com/guides/logistics-management-for-small-business-175. Logistics are relevant to both online and onground companies.

The costs of logistics can account for as much as 10–35 percent of a company's gross revenues, so any money that can be saved can lead to more affordable products for consumers and increased profitability. The costs will vary by several factors (e.g., industry sector, company location, and company size). Retailers that offer a wide assortment of products will spend more on logistics because transportation and storage costs will increase as the number of carried products increases. Dana-Nicoleta Lascu and Kenneth E. Clow, *Essentials of Marketing* (Mason, OH: Atomic Dog Publishing, 2007), 307.

Video Clip 7.8.7:

Logistics



UPS Commercial: We Love Logistics. A fun insight into what logistics are all about.

Logistics involve the following four primary functions: transportation, warehousing, inventory control, and order processing. Dana-Nicoleta Lascu and Kenneth E. Clow, *Essentials of Marketing* (Mason, OH: Atomic Dog Publishing, 2007), 307.

1. **Transportation.** The transportation choices for a small business will determine whether products will arrive at their destination in good condition and on time. Transportation costs will increase product price. The choices include truck, rail, air, water, and pipeline. Table 7.8.1: compares these choices. The selection of the best mode or combination of transportation modes depends on a variety of factors, including cost, speed, appropriateness for the type of good, dependability, and accessibility. All these things will affect customer value and customer satisfaction.

Table 7.8.1: Characteristics of Different Modes of Transportation

Mode	Percentage of Total Transportation	Cost	Speed	Product Examples*
Rail	42	Medium	Lower	Coal, stone, cement, oil, grain, lumber, and cars
Truck	28	Higher	Higher	Perishables, clothing, furniture, and appliances
Pipeline	16	Lower	Low	Oil, gas, chemicals, and coal as a semifluid
Water	13	High	Low	Coal, stone, cement, oil, grain, and cars
Air	0.4	High	High	Jewelry, perishables, electronics, wine, and spirits
*Small businesses are represented in each of the product examples given.				

Source: Adapted from Dana-Nicoleta Lascu and Kenneth E. Clow, *Essentials of Marketing* (Mason, OH: Atomic Dog Publishing, 2007), 308.

2. **Warehousing.** Philip Kotler and Kevin Keller, *Marketing Management* (Upper Saddle River, NJ: Pearson Prentice Hall, 2009), 464. Producers and manufacturers must store goods before they are sold because production and consumption rarely match.

Some inventory may be kept at or near the point of production or manufacture, but the rest is located in warehouses. Some warehouses also provide assembly, packaging, and promotional display construction services...all for a fee, of course.

3. **Inventory control.** **Inventory control** is about ensuring that goods are where customers want them when they want them. In other words, it is about avoiding the “out of stock” situation that irritates customers. Small-business owners must understand how much inventory will be needed to address their customers’ needs on a timely basis and at the appropriate cost (think pricing strategy). High inventories are undesirable because they may lead to obsolete products, depressed sales of new models, and liquidation prices that may change customer expectations in the future. Dana-Nicoleta Lascu and Kenneth E. Clow, *Essentials of Marketing* (Mason, OH: Atomic Dog Publishing, 2007), 312. Small businesses should think of inventory as a wasting asset: it does not improve with time and, in fact, becomes less valuable with every day that passes—taking up space and incurring heat, light, power, handling, and interest charges. Every day that shows inventory and no sales will also show no profit. The goal is to keep inventory as low as possible. “How to Run a Small Business: Inventory Management,” *StartupNation LLC*, accessed December 1, 2011, www.startupnation.com/business-articles/899/1/AT_InventoryMgt.asp.
4. **Order processing.** Philip Kotler and Kevin Keller, *Marketing Management* (Upper Saddle River, NJ: Pearson Prentice Hall, 2009), 464. Every small business should want to shorten the elapsed time between an order’s receipt, delivery, and payment. Although there are typically multiple steps involved, the reality is that the longer the cycle, the lower the customer’s satisfaction, the higher the company’s costs, and the lower the company’s profits. Streamlining the process should be a priority.

There are several things that small businesses can do to increase the efficiency and the effectiveness of their logistics. Jennifer Nichols, “Guide to Transportation and Logistics Companies for Small Business,” *Business.com*, accessed December 1, 2011, www.business.com/guides/logistics-management-for-small-business-175. For example, a business can select a logistics company that is industry specific (e.g., wine or clothing) because that company will understand the shipping needs of the products or use small business logistics services from UPS or FedEx.

Logistics management also includes supply chain management. This is the focus of “[Supply Chain Management: You Better Get It Right](#)”.

Place and the Website

For small businesses that sell online or hope to sell online, the company website “places” the product or the service in the hands of the customer. As a result, there are several decisions that must be made to facilitate the process so that customers can have a good online experience. Adapted from Sharad Singh, “Five Retail IT Trends to Watch in 2011,” *RetailCustomerExperience.com*, December 10, 2010, accessed December 1, 2011, www.retailcustomerexperience.com/article/178220/Five-retail-IT-trends-to-watch-in-2011; Jan Zimmerman, *Web Marketing for Dummies*, 2nd ed. (Hoboken, NJ: Wiley, 2009), 111–19. and be less inclined to abandon their shopping carts and leave the site without making a purchase.

- **Better sorting and searching.** Make it easier for shoppers to find what they are looking for.
- **Multibrand combinations in a single cart.** If multiple brands are carried, make it possible to combine shopping carts across brands and apply promotions on the entire cart.
- **Clarity on price and delivery rate.** Prices and delivery rates should be marked clearly, with no ambiguity.
- **Multiple payment options.** Offer more than credit cards. (See Chapter 4 for a discussion of payment options.)
- **Check-out options.** Do not require a customer to register before completing checkout.
- **Provide a product search engine.** The larger and more complex the product selection, the more a product search engine is needed. Shoppers can search by product name; product type; price; product attributes, such as color, size, or material; or brand either alone or in combination.
- **Two clicks to buy.** The fewer the number of clicks to buy, the greater the chances that a shopper will do just that.
- **Customer support.** Offer customer support throughout the buying process. Make it easy to communicate with a real person; spell out the company’s warranty, refund, and return policies; ensure privacy and security; and let shoppers know if you put cookies on their computers.
- **Fulfilling orders.** Ideally, send each customer an e-mail confirming when the order is completed, remind the shopper to print the order details, and provide a tracking number with a direct link to the carrier’s website so that the shopper can follow the progress of shipment.

Shopping cart abandonment, or leaving a website without buying any of the items in the shopping cart, is something that affects almost every Internet retailer, including small businesses. Cart abandonment estimates range from 20 percent to 60 percent. “Digital Window Shopping: The Long Journey to ‘Buy’” *McAfee, Inc.*, accessed December 1, 2011, www.mcafeesecure.com/us/resources/whitepapers/digital-window-shopping.jsp. An understanding of why shoppers are

abandoning their carts should lead to some serious thinking during website design and operation. Table 7.8.1 gives examples of why shoppers abandon a purchase. Because shipping is the number one reason why shoppers abandon their shopping carts, think very carefully about what the shipping charges will be. Jan Zimmerman, *Web Marketing for Dummies*, 2nd ed. (Hoboken, NJ: Wiley, 2009), 118.

Table 7.8.2: Why Online Shoppers Abandon Their Shopping Carts

High shipping charges	46%
Wanted to comparison shop	37%
Lack of money	36%
Wanted to look for a coupon	27%
Wanted to shop offline	26%
Could not find preferred payment option	24%
Item was unavailable at checkout	23%
Could not find customer support	22%
Concerned about security of credit card data	21%

“Digital Window Shopping: The Long Journey to ‘Buy’” McAfee, Inc., accessed December 1, 2011, www.mcafee.com/us/resources/whitepapers/digital_window_shopping.jsp.

KEY TAKEAWAYS

- Understand that place is about getting the product or the service to the target market where customers want it, when they want it, and at a reasonable cost.
- A small business may choose the direct, retail, wholesale, service, or hybrid channels or some combination of these channels.
- In general, B2B distribution channels parallel those of B2C businesses.
- The direct channel involves selling to the final customer with no intermediaries involved.
- Service businesses use the direct channel only because services are performed and consumed at the same time.
- The retail channel is considered indirect because the retailer is an intermediary between the producer or manufacturer and the final customer.
- The wholesale channel is also an indirect channel. The wholesaler is placed between the producer or manufacturer and the retailer.
- The multichannel distribution system (hybrid channel) uses two or more channels to reach one or more customer segments.
- Logistics are about getting materials, semifinished goods, and finished goods to customers efficiently and cost effectively. They can be handled by the producer or the manufacturer, intermediaries, or the customer.
- Logistics include decisions related to warehousing, transportation, inventory control, and order processing. These decisions are relevant to both online and onground companies.
- Websites play an important role in “placing” goods and services into the hands of customers.
- It is important to reduce the number of customers who abandon their shopping carts (i.e., leave the website without purchasing the items in their shopping carts).
- Shopping cart abandonment is common among online retailers. Shoppers abandon their carts for a variety of reasons, the most important one being high shipping charges.

EXERCISES

1. In the Appendix (Chapter 16), you will find the business plan for Frank’s All-American BarBeQue. This plan examined several possible locations for a second restaurant. Frank and Robert considered several factors when evaluating alternative towns as possible locations. Some of these included population size, average income, travel times, and percentage of population. Based on the data, they selected Darien, Connecticut. Do you agree with the decision? Why or why not? Do you think other factors should have been considered? If yes, what would you recommend?
2. Assume that you own a small business that specializes in gift baskets for children. You have been satisfied with your success so far but are anxious to spread your wings. You sell online as well as onground and have received several notes from potential

online customers expressing their disappointment that you distribute the gift baskets only in the New England area. You have decided to find out what logistics would be involved in shipping to San Francisco, California; Dallas, Texas; Chicago, Illinois; and Anchorage, Alaska. Discuss the transportation mode(s) that would best fit your company for each area.

3. Visit [Levenger](#), [Carbonite](#), and [ZipCar](#). How do these small businesses get their products or services “into the hands” of the customer? Think broadly and creatively.

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