

11.4: Factors Influencing Channel Choice

Learning Objectives

By the end of this section, you will be able to

- Identify the factors that influence channel choice in distribution.
- Describe the different types of target market coverage.
- Discuss the buyer requirements influencing channel choice.
- Explain the product-related factors influencing channel choice.
- Describe the cost factors influencing channel choice.

Target Market Coverage

Target market coverage is defined as having the resources and capabilities to reach and serve consumers in a company's target market. Companies of all sizes must determine precisely how they will reach consumers with their products and services. Smaller companies tend to focus on smaller, more local markets, whereas larger companies must meet the consumer demand of larger, even global markets. A company's decision about which channel is best for meeting the needs of consumers involves several considerations.

The first factor that plays an important role in channel choice is target market coverage. Companies must analyze the size of their target market and their budget and ensure they have the appropriate coverage. For example, a small local bakery may only target towns in its area; therefore, its target market coverage is rather small. Kohlberg & Company, the owner of the Sara Lee and Thomas' brands, on the other hand, reaches global consumers and therefore requires far greater market coverage.

Depending on the size of their target market and the products and services they sell, companies must decide between an intensive, selective, or exclusive distribution strategy.

Intensive Distribution

Intensive distribution is a strategy that entails distributing a company's market offering through all possible intermediaries. With an intensive distribution, a consumer can find a company's product virtually everywhere. Intensive distribution makes sense for products that compete in a competitive market where consumers can easily choose an alternative if a company's product isn't available.

Coca-Cola and Kraft, for example, use intensive distribution so that consumers around the world can access their products everywhere and anywhere they'd shop for food and beverages.

Selective Distribution

Selective distribution is a strategy that includes choosing more than one but fewer than all possible intermediaries to distribute a company's market offering. Companies choose selective distribution when they don't need the expansive coverage that intensive distribution provides but still need to reach their target market at specific retail outlets. Large appliance companies such as Whirlpool and General Electric use selective distribution by making their products available through their dealer networks and at selective large retailers like Lowe's and Home Depot.

Exclusive Distribution

In direct contrast to an intensive distribution strategy, some companies intentionally use an exclusive one. Exclusive distribution is a strategy that involves allowing a limited number of intermediaries to distribute a company's market offering. Luxury brand Rolex, for example, allows a limited number of retailers to sell its luxury watches. The exclusivity of these retailers reinforces Rolex's distinctive position of being a luxurious, hard-to-get brand.

Fulfillment of Buyer Requirements

In addition to determining target market coverage, companies must also consider a channel's ability to fulfill buyers' requirements. Consumers have specific product and service expectations that must be fulfilled to satisfy their wants and needs. For example, when consumers purchase bottled water, they expect the bottle to be filled to the top, the cap to be sealed before opening, and the water to taste fresh and clean. With these buyer requirements in mind, companies that make bottled water must ensure that they

work with channel members who can fulfill these buyer requirements because these requirements are critical to the perception of consumer value.

Information

Companies that recognize that buyers require information to decide between competing products may work with channel members who can provide these services. Consumers with limited knowledge of a product, for example, may be more likely to purchase that product after an in-store demonstration. Grocery retailers like Whole Foods often host in-store demonstrations of new food products for shoppers to sample (see Figure 11.8). Providing this service makes Whole Foods a desirable channel partner for start-up food brands looking to break into a highly competitive market. In another example, Ace Hardware may be a perfect channel partner for a new brand of tools because of Ace Hardware's reputation for being "the helpful place." Working with a channel member who can provide the service of in-store demonstrations creates value for the consumer and thus is a factor in determining channel choice.



Figure 11.8 Whole Foods uses in-store demonstrations as a way to share product information with consumers. (credit: "Whole Foods Market Ann Arbor" by Andypiper/flickr, CC BY 2.0)

Convenience

In some cases, buyers demand convenience and will only purchase products and services near where they live, work, or shop. Companies must consider whether their target customers value convenience. For example, buyers shopping for chewing gum likely value convenience much more than buyers shopping for skis. Companies whose buyers require convenience should choose retail outlets that are convenient and hassle-free.

Variety

Companies must also consider the variety of their target market's values. Imagine walking into a pet supply store and only seeing one type of pet food. Buyers generally have a desire to choose from a variety of competing products. Petco and PetSmart recognize that consumers appreciate variety in everything from pet food to pet supplies such as toys, leashes, and bedding. For companies who compete in a crowded market where buyers have many options, selecting outlets that offer a variety of similar and competing products makes the most sense.

Pre- or Post-Sale Service

Pre-sale service entails all the activities that help a buyer make a purchase decision, while post-sale service entails all the activities that help a buyer recognize the product's value. A pre-sale service can be observed at a car dealership where shoppers are invited to test-drive a vehicle and apply for financing. Post-sale service in this same example would be the offering of vehicle services such as free oil changes and tire rotations for the life of the vehicle.

For some companies, the service provided before and after the sale is critical to customer-perceived value. Customer-perceived value is a consumer's overall perception of a company, brand, or product and is measured by what the consumer is willing to pay in return for the features and benefits in the market offering. Companies that sell large appliances and furniture, for example, understand that consumers value haul-away services. For example, for an additional fee, Lowe's offers customers the option of having their old appliance hauled away and their new appliance installed. These complimentary services are important because they add value to the customer's product experience (see Figure 11.9).



Figure 11.9 Lowe's appliance haul-away program provides a post-sales service as a value-add item to influence potential consumers. (credit: "Show-Me Green Tax" by Rachel Gleason/KOMU News/flickr, CC BY 2.0)

Product-Related Factors

In addition to target market coverage and requirements of the buyer, there are product-related factors that can influence channel decisions. Product-related factors include unit value, perishability, and the bulk and weight of a product. These factors can influence companies' distribution decisions (see Figure 11.10).

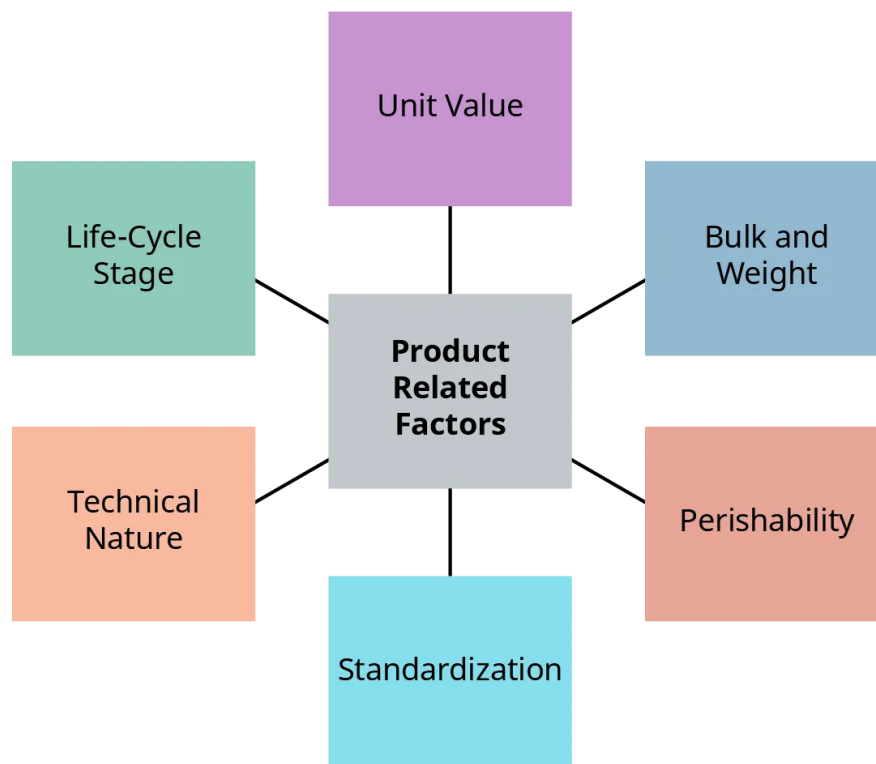


Figure 11.10 Product-Related Factors (CC BY 4.0; Rice University & OpenStax)

Unit Value

A product's unit value, or the price that a company charges for one unit or item, can influence channel length decisions. Channel length relates to the number of intermediaries in the marketing channel. For example, products with high unit values, such as cars, boats, and airplanes, will have a much shorter distribution channel than nonperishable products, such as crackers, bandages, and tissues, which have a low unit value. Because of the complexities and costs of moving heavy or awkward products, companies seek a shorter distribution channel to mitigate these factors. Some companies specialize in moving more expensive and complex products.

Perishability

Perishability relates to the likelihood that a product will spoil, decay, or expire if not used in a timely manner. A product's perishability also influences channel decisions. For example, the marketing channel of orange juice maker Tropicana looks much different from Nabisco's Ritz Crackers channel. Because orange juice must be kept cold throughout the distribution process, Tropicana makes channel decisions that allow it to protect the integrity of the product throughout the distribution process. Working with channel partners who are experts at storing, handling, and moving perishable products is one of the most important factors for companies that manufacture perishable products.

Alongside unit value, perishability can also influence channel length. Companies marketing perishable goods such as milk, cheese, and meat products require a shorter distribution channel because these products have a limited shelf life.

Bulk and Weight

Much like a product's unit value, the bulk and weight of a product influence channel length. The bulk and weight of a product is the density and heaviness of one unit of product. Companies that sell larger and heavier items are more likely to use a direct or short distribution channel to avoid issues that arise when too many intermediaries handle a product. For example, because hot tubs or personal spas are bulky and heavy, they are more prone to product damage during distribution. Furthermore, there are typically fewer intermediaries between the manufacturer and the customer to mitigate the high costs associated with distributing hot tubs (Technavio, 2021).

Standardization

The standardization of a product also impacts channel decisions. Standardized products have no differences in how they are manufactured. Standardized products are uniform and consistent. Agricultural products, such as grain and corn, are standardized. Consumers cannot tell the difference between these products because of their standardization. Standardized products have a longer channel length than customized products. Customized products are adapted depending on the customer's needs. They typically require a shorter distribution channel. Companies must consider the impact of standardization before making channel decisions.

Technical Nature of a Product

Products sold in the tech space are typically more complex and often require an onboarding process. For example, the customer-relationship management firm Salesforce offers companies a cloud-based application that allows it to manage millions of contacts or people as they move along the sales cycle from lead to prospect to customer. Products with a technical component often have a short channel length, meaning there is no intermediary between the company and the business consumer. They are distributed directly to business consumers (or B2B) because of the product's onboarding, implementation, training, support, and maintenance aspects. Companies that use Salesforce have access to a customer relationship management expert who ensures that the program is being used and managed effectively for the customer to get the most out of the product.

Product Life-Cycle Stage

A product's life-cycle stage may also impact channel decisions. Product life cycle refers to the various stages a product goes through, from its introduction phase to its growth and maturity phase, and in some cases to its decline phase. For example, companies may make more conservative channel decisions during the introduction phase of a product's life cycle, where profits and consumer knowledge of a product are low. As the product enters the growth stage, companies may expand distribution to meet consumer demand. As the product enters the maturity stage and ultimately the decline state, a company must ensure its distribution strategy aligns with its changing consumer demand.

Profitability

The profitability of a channel can also influence channel decisions. Profitability relates to the amount of money to be gained after a company pays its expenses. A simple way to calculate profitability is to subtract these expenses from the revenue generated.

Companies must evaluate not just the revenue generated by working with channel partners but also the channel member's ability to operate profitably. Channels that cannot manage distribution costs effectively are less attractive for companies seeking to earn a profit. Companies ultimately must be profitable, and choosing channel partners that help them achieve their overarching goals is more desirable than those that cannot.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Which of the following overarching factors can impact channel choice in the distribution of products and services?

- a. Target market coverage, fulfillment of buyer requirements, and profitability
- b. Intensive, selective, and exclusive distribution
- c. The technical nature of the product and its fixed and variable costs
- d. The profitability of the channel and its members' abilities to meet consumer needs

2.

ABC Toys desires to distribute products across global markets. It is likely using what type of distribution strategy?

- a. Exclusive
- b. Selective
- c. Unlimited
- d. Intensive

3.

Total Appliance offers buyers installation services for refrigerators, dishwashers, washers, and dryers for \$50. In addition, it also offers buyers a free annual tune-up of any major appliance purchased through its retail outlet. Which buyer requirement does Total Appliance fulfill?

- a. Variety
- b. Post-sale service
- c. Pre-sale service
- d. Convenience

4.

MilkyIce markets ice cream products through grocery retailers in the United States. Which product-related factors would have the biggest impact on MilkyIce's channel choice?

- a. Standardization
- b. Bulk and weight
- c. Perishability
- d. Unit value

5.

Which overarching factor involves analyzing the revenues and costs associated with a channel?

- a. Unit value
- b. Fixed costs
- c. Variable costs
- d. Profitability

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