

CHAPTER 10

ANALYZING THE VALUE CHAIN: DISTRIBUTION CHANNELS

Author's Note

Distribution is one of the most important competitive advantages of this decade. It is no longer simply part of the marketing process. Distribution is about moving the product or service through the value chain to the customer. This chapter will help students understand how they can include distribution in their competitive strategies. The various types of distribution channels are presented and students are guided to a way to create a distribution strategy.

Learning Objectives

This chapter will give students an understanding of:

- Distribution as a competitive strategy
- Distribution channels options
- How to create a distribution strategy

Supplementary Lecture Material

Finding the Best Distribution

Effective Education Inc. is a \$300,000 education-products vendor in New Jersey that wanted to take advantage of an established national distribution network to reach its customers at elementary schools. Solley Tamari, the president of Effective Education, first tried a \$25 million company, but after a year found that it wasn't delivering the results Tamari wanted. In fact, Tamari often found himself closing deals that had languished with the distributor. After a bit of investigation—literally following the reps, Tamari discovered that the distributor wasn't approaching the right person at the school, the person who could make the decision. The distributor also hadn't figured out that not every school had the same protocol for purchasing.

Tamari learned that his product was not always the one being pushed because the distributor had other, more expensive products that it wanted to sell. The bottom line, you have to do your homework on distributors and not assume that they always have your best interests at heart.

Source: Ilan Mochari, "Ace Distribution Takes Legwork," Inc. Magazine, April 1, 2001.

Cases Relevant to This Chapter

Earthlink.net: The Journey to Recognizing an Opportunity

Highland Dragon

Roland International Freight Service

Wizards of the Coast

Answers to Issues to Consider

1. *How do digitization and the Internet affect the service industry? The manufacturing industry?*

Digitization has revolutionized the way we obtain, share, and act on information. Because of digital technology, text, sound and video can be put onto a digital form that any computer can store, process, and forward. Information is now a more valuable product. For manufacturers, digital technology reduces the cost of reproduction to pennies, so the direct costs of producing an information product lie in the development and prototyping phases. Information products can be distributed easily over the Internet at virtually no cost.

2. *How might the four trends in distribution affect the retailer of consumer electronics?*

The four trends on page 209 are 1) the collapse of the middle; 2) emergence of new customer groups; 3) migration within the value chain; and 4) redefinition of the product/service. Consumer electronics has become a commodity industry, for the most part. Therefore, an entrepreneur in the consumer electronics industry would want to bundle or unbundle products and services to create new value; to look for emerging customer groups; to decide where on the value chain the entrepreneur wants to focus his efforts; and to consider repositioning the product to create new value.

3. *How does direct selling in the consumer and industrial channels of distribution differ?*

In the consumer channel, direct selling means selling directly to the consumer with no intermediaries. In the industrial channel, the manufacturer sells directly to the industrial user, which is typically another business.

4. *How does a distribution channel affect the price of the product or service?*

The distribution channel affects the price because generally the longer the channel, the higher the price to the end user.

Suggestions for Experiencing Entrepreneurship

1. *Surf the Internet and come up with five products or services that are using the Internet as a new distribution channel, not just as an advertising medium. How are they accomplishing this?*

Answers will vary, but may include books (Amazon.com), clothing (landsend.com), computers (dell.com), music (towerrecords.com), and air travel (iflyswa.com). Students should examine their choices carefully to determine why this is a new distribution channel for the company. Encourage students to find companies that aren't often used as examples.

2. *Pick a product in the consumer marketplace and trace it back through the value chain to its origins. Show where value is added at each point. Are there effective ways to shorten the value chain?*

For example, take a hamburger and trace it back up the value chain to its raw materials. Show how the intermediaries along the way have added value and been able to mark up the cost to the next intermediary.