chapter

14

Pricing and Distributing Goods and Services

After reading this chapter, you should be able to:

LO-1 Identify the various *pricing objectives* that govern pricing decisions and describe the price-setting tools used in making these decisions.

LO-2 Discuss *pricing strategies* and *tactics* for existing and new products.

LO-3 Explain the *distribution mix*, the different *channels of distribution*, and the different *distribution strategies* that businesses use.

LO-4 Explain the differences among *wholesalers*, *agents/brokers*, and *retailers*.

LO-5 Identify the different types of *retail stores* and the activities of *e-intermediaries*.

LO-6 Define *physical distribution* and describe the major activities in *warehousing* operations.

LO-7 Compare the five basic forms of *transportation* and explain how distribution can be used as a marketing strategy.

Buyers and Sellers Jockey for Position

Retail shoppers want to get the lowest price possible, and retailer sellers want to get the highest price possible to protect their profit margins. As a result, there is always a certain level of tension between sellers of goods and the customers who buy them. During the recession that started in 2008, this tension reached a new level.

Stores continue to trumpet low prices as they always have, but they don't want to attract just the "cherry-picking" customers (those that go from store to store buying only on-sale items). Rather, retailers want customers who buy a variety of products because this allows the retailer to keep profit margins higher. When you go into a Zellers store, for example, you might see boxes of canned Coke near the entrance with a bargain price of three for $9.99. But you'll have to look harder to find the discount price of $58.97 on Sesame Street's Elmo. As you are looking for Elmo, the store hopes you will find some other item that you need that is not on sale.

Walmart tries to cope with cherry-picking consumers by placing products that customers might overlook close to high-demand items (e.g., placing reduced-price slippers next to higher-priced boots). Canadian Tire and Loblaw have also noted the cherry-picking trend. In addition to strategically placing on-sale items, retailers can cope with cherry pickers by limiting quantities (e.g., "one per customer"), advertising higher-margin items, and developing promotional programs that encourage shoppers to buy a broad range of products.

Retailers aren't the only ones struggling with low margins. Manufacturers are also faced with pricing dilemmas. For example, when Unilever Canada Ltd. was faced with big cost increases in the price of soybean oil used in Hellmann's mayonnaise, it debated about whether it should increase the price or simply absorb the cost increase. It finally decided

How Will This Help Me?

By understanding the material presented in this chapter, you will benefit in three ways: (1) as a *consumer*, you will have a better understanding of how a product's development, promotion, and distribution affect its selling price, (2) as an *investor*, you'll be better prepared to evaluate a company's marketing program and its competitive potential before buying the company's stock, and (3) as an *employee and/or manager*, you'll be able to use your knowledge about product pricing and distribution to further your career.

to do neither. Instead, it kept the price the same but decreased the size of the mayonnaise jar from 950 ml to 890 ml and changed the container from glass to plastic (which cut manufacturing costs).

This practice has become very common because marketers believe that people don't notice the change in *quantity* like they do the change in *price*. Other examples of this strategy are as follows:

- Kimberly-Clark Corp. cut the price of its diapers, but cut the quantity in the package even more (this was, in effect, a 5 percent price increase).
- General Motors started charging extra for antilock brakes instead of including them at no charge as it used to (this also constituted a price increase).
- Wrigley reduced the number of pieces in a pack of Juicy Fruit gum from 17 to 15 while keeping the price the same.
- Tropicana reduced the size of its orange juice container from 2.84 litres to 2.63 litres but kept the price the same.
- General Mills introduced smaller boxes for Cheerios and Wheaties, and Kellogg did the same with many of its cereals; both retained their former pricing.

In November 2008, only 2 of the 30 companies that make up the Dow-Jones Industrial Average had higher stock prices than they did in November 2007, before the recession hit. Those two companies—McDonald's and Walmart—are legendary for their low prices, and both of them benefited as consumers "traded down" to cheaper meals and consumer products as a result of the recession. There are many other examples as well. Consider the recent success of so-called dollar stores—retailers that offer ultra-cheap prices on a limited selection of goods. These include stores like The Silver Dollar, Dollarama, and Buck or Two. Sales revenues for this type of retail outlet have doubled in the last five years, and the number of stores has tripled. While dollar stores originally targeted low-income shoppers, they now are appealing to buyers at all income levels, and they are gaining the attention of companies that once ignored them. Procter & Gamble, for example, created a special version of Dawn dish soap that sells for $1, and Kraft Foods sells boxes of macaroni and cheese in dollar stores.

Pricing issues are very significant in the cigarette industry. For many years, the North American cigarette market has been an oligopoly that is dominated by a few very large tobacco companies like Imperial Tobacco, R.J. Reynolds, Philip Morris, Brown & Williamson, and Lorillard Tobacco. The pricing strategy that has historically been used by these companies is to increase prices to maintain (or increase) profits. This strategy worked for decades because customers were very loyal to their favourite brand. But now some new cigarette manufacturing companies have entered the market and are pricing their cigarettes as much as 50 percent lower than the "majors." The majors are likely to have less control over the market than they used to, and they are going to have much more difficulty simply raising prices in the future.

PRICING Deciding what the company will receive in exchange for its product.

PRICING OBJECTIVES Goals that sellers hope to attain in pricing products for sale.

LO-1 Pricing Objectives and Tools

In **pricing**, managers decide what the company will receive in exchange for its products. There are several objectives that might influence a firm's pricing decisions, and several major tools that companies can use to meet whatever pricing objectives are set.

Pricing to Meet Business Objectives

Different companies have different **pricing objectives.** Two of the most common objectives are *profit-maximizing pricing* and *market share pricing*. Pricing decisions may also be influenced by the need to survive in the marketplace, by social and ethical concerns, and even by corporate image.

Profit-Maximizing Objectives Pricing to maximize profits is tricky. If prices are set too low, the company will sell all of its output, but it may miss the opportunity to make additional profit on each unit. If prices are set too high, the company will make a large profit on each item but it may not sell all its output. To avoid these problems, companies try to set prices to sell the number of units that will generate the highest possible total profits, given prevailing market conditions. For example, Coca-Cola tested a vending machine that automatically raised the price of a Coke as the temperature climbed. It also tried setting prices at different vending machines at different levels, depending on how many customers used the machine.[1] The Ottawa Senators increased prices 20 percent for games against the Toronto Maple Leafs and the Detroit Red Wings.[2]

In the United Kingdom, one auto insurer has introduced a system where car insurance premiums vary depending on how much, where, and when a person drives. For example, a 40-year-old driver who is driving on a divided highway at 2 p.m. might pay only one pence per mile to drive, but a teenager driving at 1 a.m. would pay dramatically more (about one *pound* per mile).[3] In Canada, Skymeter Corp. is developing a technology that tracks how far a car travels and where it parks. A GPS unit on the car's dashboard makes the measurements. The system does away with the need for highway toll booths and parking attendants.[4]

In calculating profits, managers weigh receipts against costs for materials and labour used to create the product. But they also consider the capital resources (plant and equipment) that the company must tie up to generate that level of profit. The costs of marketing (such as maintaining a large sales staff) can also be substantial. Concern over the efficient use of these resources has led many firms to set prices so as to achieve a targeted level of return on sales or capital investment.[5]

Market-Share Objectives Some companies initially set low prices for new products. They are willing to accept minimal profits—even losses—to get buyers to try their products. These companies are using price to establish **market share**—a company's percentage of the total market sales for a specific product. Even with established products, market share objectives may outweigh profits in setting price. For a product like Philadelphia cream cheese, dominating a market means that consumers are more likely to buy it because they are familiar with a well-known, highly visible brand name.

MARKET SHARE
A company's percentage of the total market sales for a specific product.

Retailers like Walmart are also concerned about market share. In 2010, Walmart cut prices in order to attract customers who were shopping for food at supermarkets instead of at Walmart.[6] And Toyota cut prices in 2010 in an attempt to regain market share (which had declined from 18.9 percent in December 2009 to 12.8 percent in February 2010) after millions of its cars were recalled due to reports of uncontrollable acceleration.[7]

Price-Setting Tools

Whatever a company's objectives, managers must measure the potential impact of various prices before deciding on a final price. Two basic tools are often used for this purpose: *cost-oriented pricing* and *break-even analysis*. As a rule, these tools are combined to identify prices that will allow the company to reach its objectives.

Cost-Oriented Pricing Cost-oriented pricing considers the firm's desire to make a profit and takes into account the need to cover production costs. A video store manager, for instance, would begin to price DVDs by calculating the cost of making them available to shoppers. Included in this figure would be store rent, employee wages, utilities, product displays, insurance, and, of course, the cost of buying DVDs from the manufacturer.

Let's assume that the cost from the manufacturer is \$8 per DVD. If the store sells DVDs for this price, it will not make any profit. Nor will it make a profit if it sells DVDs for \$8.50 each, nor even for \$10 or \$11. The manager must account for product and other costs and set a figure for profit. Together, these figures constitute markup. In this case, a reasonable markup of \$7 over costs would result in a \$15 selling price. Markup is usually stated as a percentage of selling price. Markup percentage is thus calculated as follows:

Markup percentage = Markup/Sales price

In the case of our DVD retailer, the markup percentage is 46.7:

Markup percentage = \$7/\$15 = 46.7%

In other words, out of every dollar taken in, 46.7 cents will be gross profit for the store. From this profit, the store must still pay rent, utilities, insurance, and all other costs. Markup can also be expressed as a percentage of cost: The \$7 markup is 87.5 percent of the \$8 cost of a DVD (\$7 divided by \$8).

Using low-cost, direct-to-consumer selling and market share pricing, Dell profitably dominated the personal computer market while its competitors sold through traditional retailers (which added costs that prevented them from matching Dell's low prices).

VARIABLE COSTS Those costs that change with the number of goods or services produced or sold.

FIXED COSTS Those costs unaffected by the number of goods or services produced or sold.

BREAK-EVEN ANALYSIS An assessment of how many units must be sold at a given price before the company begins to make a profit.

In some industries, cost-oriented pricing doesn't seem to be relevant. When you go to a movie, for example, you pay the same price for each film you see. But it may cost as little as $2 million or as much as $200 million to make a film. Shouldn't the admission price be based on how much the film cost to make? After all, you pay a lot more for a BMW 5 Series automobile than you do for a Honda Civic because the BMW costs more to make. But for movies, the market seems to be the overriding consideration (i.e., consumers are simply not willing to pay more than a certain amount to see a movie, no matter how much it cost to make). In other situations, however, price is not a major consideration for the consumer (see the boxed insert entitled "Men and Cars").

Break-Even Analysis: Cost–Volume–Profit Relationships If a firm uses cost-oriented pricing, it will cover its **variable costs**—costs that change with the number of goods or services produced or sold. It will also make some money toward paying its **fixed costs**—costs that are unaffected by the number of goods or services produced or sold. But how many units must the company sell before all of its fixed costs are covered and it begins to make a profit? To determine this figure, it needs a **break-even analysis**.

ENTREPRENEURSHIP AND NEW VENTURES

Men and Cars: Unrequited Love

Men have always had a bit of a love affair with their cars, but the customers of Auto Vault are downright obsessive. You would be too if you had $500 000 invested in a Lamborghini or some other exotic coupé. Auto Vault, a Toronto-based secure car storage facility for luxury automobiles and motorcycles, is owned and operated by Gary Shapiro. He got the idea for Auto Vault when working in sales at a high-end auto dealership. Potential customers complained that money wasn't the issue when it came to making a purchase; rather, the problem was where they would store the vehicle. Shapiro's company was launched in 2004, and it has been experiencing steady growth since inception, expanding from 80 customers at the end of its first year of operations to 400 in 2008.

For a $229 monthly fee, customers can purchase Auto Vault's Gold Package, which includes an exterior dust cover, interior mats and steering wheel cover, access to dedicated staff, secure parking, security monitoring, valet delivery, and detailing. For $299/month, you can get all the features of the Gold Package, plus tire pressure monitoring, battery and fluid checks, scheduled vehicle start-ups, and visual inspections.

Auto Vault's customers are really purchasing peace of mind. They trust Shapiro and they like him. "I was once called 'likable' in a newspaper article. . . . I hope I am, it would make it easier to convince someone to hand over the keys to a $500 000 car and their American Express card," says Shapiro. He is also known for his discretion; people are not told who owns which car, and some of his customers even have cars that are unknown to their families. Finally, the location is secret and disclosed to customers only after Shapiro meets with them.

As part of his service offering, Shapiro also likes to maintain personal contact with his clients and this is done through his handling of all incoming calls. "Word spread that I take good care of people," he said. This has helped him to get referrals, and according to Shapiro, he doesn't have to push his product; customers come to him. His next venture is a $15 million storage facility to be converted into parking condos. For $40 000, plus monthly maintenance fees, prestige car owners can purchase their own customized unit (average size is 400 square feet). Shapiro's imagination for what his car condo can offer has no boundaries. He's talking about such features as decor to match your car colour, 24-hour concierge service, a detailing service, and common areas with large screen TVs, among others. This romance between men and cars . . . it must be true love! And price is no object.

Critical Thinking Questions

1. Describe the various pricing strategies and distribution options that are available to companies. Which pricing and distribution strategies were adopted by Auto Vault?
2. Do you think Shapiro's pricing reflects the market he is targeting? Why or why not?

To continue with our video store example, suppose again that the variable cost for each DVD (in this case, the cost of buying the DVD from the producer) is \$8. This means that the store's annual variable costs depend on how many DVDs are sold—the number of DVDs sold multiplied by the \$8 cost per DVD. Assume that fixed costs for keeping the store open for one year are \$100 000. These costs are unaffected by the number of DVDs sold; costs for lighting, rent, insurance, and salaries are steady no matter how many DVDs the store sells. How many DVDs must be sold to cover both fixed and variable costs and to start to generate some profit? The answer is the **break-even point**, which is 14 286 DVDs. We arrive at this number through the following equation:

$$\text{Breakeven point (in units)} = \frac{\text{Total Fixed Cost}}{\text{Price} - \text{Variable Cost}}$$

$$= \frac{\$100\,000}{\$15 - \$8} = 14\,286 \text{ DVDs}$$

Figure 14.1 shows the break-even point graphically. If the store sells fewer than 14 286 DVDs, it loses money for the year. If sales exceed 14 286 DVDs, profits grow by \$7 for each DVD sold. If the store sells exactly 14 286 DVDs, it will cover all of its costs but will earn zero profit. Zero profitability at the break-even point can also be seen by using the following profit equation:

$$\text{Profit} = \begin{matrix}\text{Total}\\ \text{Revenue}\end{matrix} - \left(\begin{matrix}\text{Total}\\ \text{Fixed}\\ \text{Cost}\end{matrix} + \begin{matrix}\text{Total}\\ \text{Variable}\\ \text{Cost}\end{matrix}\right)$$

$$= (14\,286 \text{ DVDs} \times \$15) - (\$100\,000 \text{ Fixed Cost} + [14\,286 \text{ DVDs} \times \$8 \text{ Variable Cost}])$$

$$\$0 = (\$214\,290) - (\$100\,000 + \$114\,288)$$

(rounded to the nearest whole DVD)

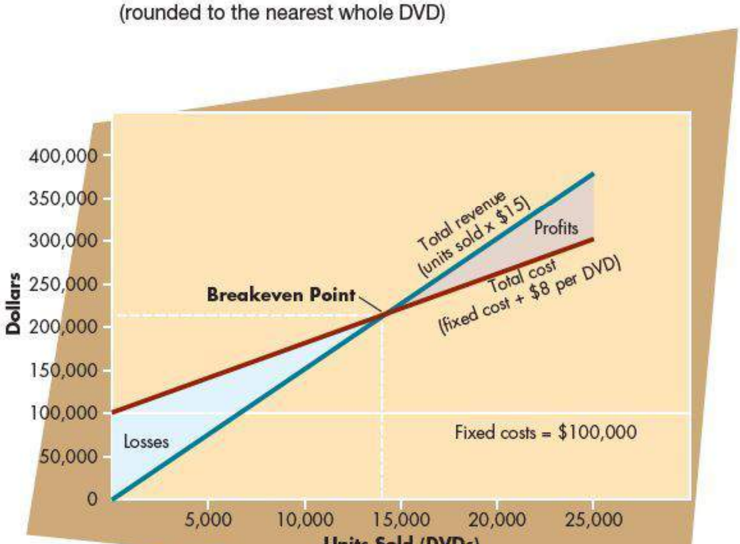


Figure 14.1
Breakeven analysis.

The video store owner would certainly like to hit the break-even quantity as early as possible so that profits will start rolling in. Why not charge \$30 per DVD and reach the break-even point earlier? The answer lies in the downward-sloping demand curve we discussed in Chapter 1. At a price of \$30 per DVD, sales at the store would drop. Before setting a price, the manager must consider how much DVD buyers are willing to pay and what the store's competitors charge.

BREAK-EVEN POINT The number of units that must be sold at a given price before the company covers all of its variable and fixed costs.

LO-2 Pricing Strategies and Tactics

In this section, we discuss *pricing strategy* (pricing as a planning activity that affects the marketing mix) as well as some basic *pricing tactics* (ways in which managers implement a firm's pricing strategies).

Pricing Strategies

How important is pricing as an element in the marketing mix? Because pricing has a direct impact on revenues, it is extremely important. Moreover, it is a very flexible tool. It is easier to change prices than to change products or distribution channels. Different pricing strategies can result in widely differing prices for products that are very similar.

Pricing Existing Products A firm has three basic options available in pricing its existing products. It can set prices above the prevailing market price charged for similar products, below the market price, or at the market price. Companies pricing above the market play on customers' beliefs that higher price means higher quality. Companies such as Godiva (chocolates) and Rolls-Royce have succeeded with this pricing philosophy. In contrast, both Budget and Discount promote themselves as low-priced alternatives to Hertz and Avis.

Pricing New Products Companies introducing new products into the market have to consider two contrasting pricing policy

PRICE SKIMMING The decision to price a new product as high as possible to earn the maximum profit on each unit sold.

PENETRATION PRICING The decision to price a new product very low to sell the most units possible and to build customer loyalty.

PRICE LINING The practice of offering all items in certain categories at a limited number of predetermined price points.

PSYCHOLOGICAL PRICING The practice of setting prices to take advantage of the illogical reactions of consumers to certain types of prices.

ODD-EVEN PRICING A form of psychological pricing in which prices are not stated in even dollar amounts.

DISCOUNT Any price reduction offered by the seller to persuade customers to purchase a product.

options: coming in with either a very high price or a very low one. **Price skimming**—setting an initially high price to cover costs and generate a profit—may generate a large profit on each item sold. The revenue is often needed to cover development and introduction costs. High-definition television (HDTV) is an example. In contrast, **penetration pricing**—setting an initially low price to establish a new product in the market—seeks to create consumer interest and stimulate trial purchases.

When Carbonite Inc. started its online backup service, it charged "one flat low price" no matter how many computer files you needed to back up.[8] To attract customers, Apple iTunes' initial policy was to price all songs at $0.99, but now it prices older tunes at $0.69 and currently popular tunes for $1.29.

Fixed versus Dynamic Pricing

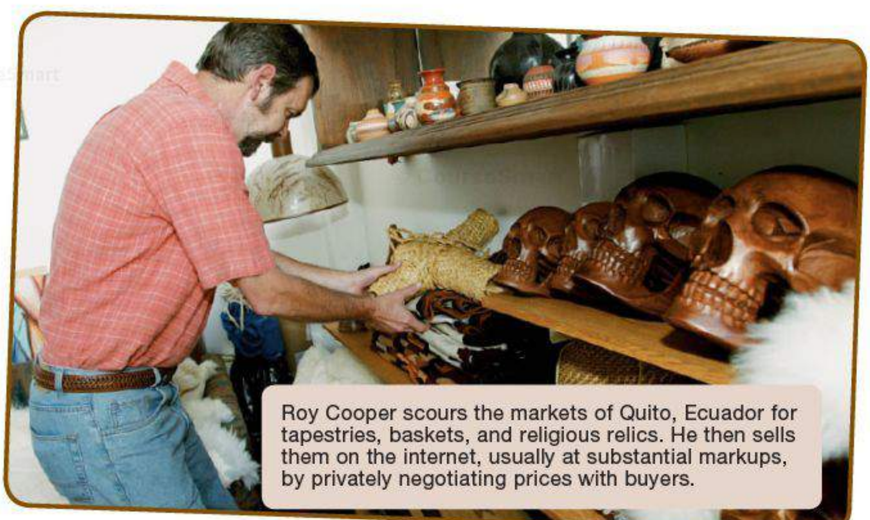
The fixed pricing system is still used by most companies, but in the electronic marketplace dynamic pricing has been introduced as an alternative. Dynamic pricing is feasible because the flow of information on the internet notifies millions of buyers around the world of instantaneous changes in product availability.[9] To attract sales that might be lost under the fixed-price structure, sellers can alter prices privately on a one-to-one, customer-to-customer basis.[10] For example, at Priceline.com, consumers can state a price (below the published fixed price) that they are willing to pay for airfare. An airline can complete the sale by accepting the bid price. Progressive Casualty Insurance Company has introduced what is perhaps the ultimate dynamic pricing system. It sets insurance rates for drivers based on their real-time driving behaviour—information that is generated by the automobile's GPS system.[11]

Pricing Tactics

Regardless of its pricing strategy, a company may adopt one or more *pricing tactics*. Companies selling multiple items in a product category often use **price lining**—offering all items in certain categories at a limited number of prices. With price lining, a department store, for example, predetermines three or four *price points* at which a particular product will be sold. For example, all men's suits might be priced at $175, $250, or $400.

Psychological pricing is based on the idea that customers are not completely rational when making buying decisions. For example, the long-standing tactic of **odd-even pricing** assumes that customers think that a price of $99.95 is significantly lower than a price of $100. But Walmart is going against this trend. In an attempt to make it easier for money-conscious customers to calculate their bill before they get to the cash register, Walmart is rounding prices to the nearest dollar on many products.[12]

Another tactic is to offer a **discount** in an attempt to stimulate sales. In recent years, *cash discounts* have



Roy Cooper scours the markets of Quito, Ecuador for tapestries, baskets, and religious relics. He then sells them on the internet, usually at substantial markups, by privately negotiating prices with buyers.

If the manufacturer says a product should retail for $349, why doe every retailer sell it for, say, $229? Such discrepancies between a manufacturer's suggested retail price and the actual retail price are the norm in the electronics industry and consumers have come to expect discounted prices. But if no one charges suggested retail prices, are customers really getting a discount?

DISTRIBUTION MIX The combination of distribution channels a firm selects to get a product to end-users.

INTERMEDIARIES Any individuals or firms other than the producer that participate in a product's distribution.

WHOLESALERS Intermediaries who sell products to other businesses, which in turn resell them to the end-users.

RETAILERS Intermediaries who sell products to end-users.

DISTRIBUTION CHANNEL The path a product follows from the producer to the end-user.

DIRECT CHANNEL A distribution channel in which the product travels from the producer to the consumer without passing through any intermediary.

become popular. Stores also offer *seasonal* discounts to stimulate the sales of products during times of the year when most customers do not normally buy the product. *Trade discounts* are available to companies or individuals in a product's distribution channel. For example, wholesalers, retailers, and interior designers pay less for fabric than the typical consumer does. *Quantity discounts* involve lower prices for purchases in large quantities. Discounts for cases of motor oil or soft drinks at retail stores are examples of quantity discounts.

LO-3 The Distribution Mix

The success of any product is affected not only by its price but also by its **distribution mix**—the combination of distribution channels by which a firm gets products to end users.

Intermediaries and Distribution Channels

Intermediaries are the individuals and firms that help to distribute a producer's goods. **Wholesalers** sell products to other businesses, which resell them to final consumers. **Retailers** sell products directly to consumers. While some firms rely on independent intermediaries, others employ their own distribution networks and sales forces. Intermediaries are appearing in places where most people might think they aren't needed. A Canadian company called Imagine This Sold Ltd. provides expertise to people who are trying to sell items on eBay. This company exists because trading has become so competitive on eBay that more expertise is needed to succeed than a lot of people thought.[13]

Distribution of Goods and Services A **distribution channel** is the path that a product follows from producer to end user. Figure 14.2 shows how four popular distribution channels can be identified according to the kinds of channel members involved in getting products to buyers. All channels begin with a producer and end either with a consumer or an industrial (business) user.

Channel 1: Direct Distribution In a **direct channel**, the product travels from the producer to the consumer or industrial buyer without intermediaries. Using their own sales forces, companies such as Avon, Dell, Geico, and Tupperware use this channel. Direct distribution is prominent on the internet for thousands of products ranging from books and automobiles to insurance and vacation packages sold directly by producers to users. Most business goods, especially those bought in large quantities, are sold directly by the manufacturer to the industrial buyer.

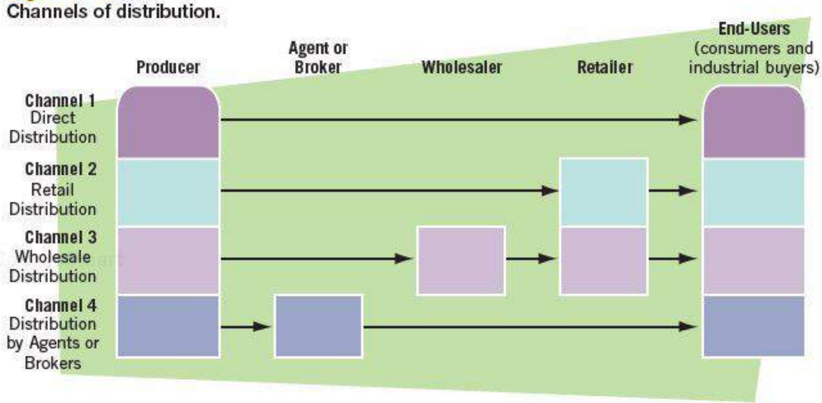
Channel 2: Retail Distribution Producers often distribute consumer products through retailers. Goodyear and Levi's have their own retail outlets. Large outlets such as Walmart buy merchandise directly from producers and sell to consumers. Many industrial buyers also rely on Channel 2 as they shop at office supply retailers such as Staples, Office Depot, and Office Max.

Channel 3: Wholesale Distribution Channel 2 was once the most widely used method of nondirect distribution.

SALES AGENT An independent business person who represents a business and receives a commission in return, but never takes legal possession of the product.

BROKER Independent intermediary who matches numerous sellers and buyers as needed, often without knowing in advance who they will be.

Figure 14.2
Channels of distribution.



But it requires a large amount of floor space, both for storing merchandise and for displaying it in stores. Faced with the rising cost of store space, many retailers found that they could not afford both retail and storage space. Thus, wholesalers entered the distribution network to take over more of the storage function. The combination convenience store/gas station is an example of Channel 3. With approximately 90 percent of the space used to display merchandise, only 10 percent is left for storage and office facilities. Wholesalers relieve the space problem by storing merchandise for retailers and restocking store displays frequently.

Channel 4: Distribution by Agents or Brokers Channel 4 uses *sales agents* or *brokers* who represent producers and sell to consumers, industrial users, or wholesalers. They receive commissions based on the prices of the goods they sell. **Sales agents** generally deal in the related product lines of a few producers, and form long-term relationships to represent those producers and meet the needs of steady customers. Vancouver-based Uniglobe Travel International, a travel agency representing airlines, car-rental companies, hotels, and tour companies, books flight reservations and arranges complete recreational travel services for consumers. The firm also services companies whose employees need lodging and transportation for business travel. In contrast to agents, **brokers** match numerous sellers and buyers as needed, often without knowing in advance who they will be. Both the real estate industry and stock exchanges rely on brokers to match buyers and sellers.

The Pros and Cons of Nondirect Distribution Each intermediary in the distribution chain makes a profit by charging a markup or commission. Thus, nondirect distribution means higher prices. Intermediaries, however, can provide *added value* by saving consumers both time and money. Moreover, the value accumulates with each link in the supply chain. Intermediaries provide time-saving information and make the right quantities of products available where and when consumers need them. Consider Figure 14.3, which illustrates the problem of making chili without the benefit of a common intermediary—the supermarket. As a consumer, you would obviously spend a lot more time, money, and energy if

At Delphi Automotive Systems, Jessica Prince assembles fuel pumps according to a process that she helped engineers and consultants design. The auto parts are shipped directly from the plant to an auto manufacturer, illustrating a direct channel of distribution.

you tried to gather all the ingredients from one producer at a time.

Eliminating intermediaries does not magically eliminate the tasks they perform and the costs they incur in performing those tasks. In this do-it-yourself era, more and more people are trying to save money by opting to sell their homes without using the services of a real estate agent. Since the agent's fee is normally between 5 and 6 percent of the purchase price of the house, the savings can be substantial. But the seller then has to do all the work that brokers would normally do to earn their fee.

Intermediaries like real estate agents provide an essential service, but not necessarily a *low-cost* service. E-brokers, who charge a flat rate that is far below what traditional real estate brokers charge, have emerged. It is not surprising that this development has been viewed with alarm by traditional real estate agents. What's worse, in 2010, the Canadian Competition Bureau filed a complaint with the Competition Tribunal, alleging that the Canadian Real Estate Association (CREA) was engaging in anti-competitive restrictions that were designed to maintain high fees for traditional real estate brokers by cutting e-brokers out of the CREAs Multiple Listing Service.[14] Real estate agents may soon have to face the fact that the internet has a lot of power to make data free and open.[15]

Distribution Strategies

The choice of a distribution strategy determines the amount of market exposure the product gets and the cost of that exposure. **Intensive distribution** occurs when a product is distributed through as many channels and channel members as possible. As Figure 14.4 shows, Caramilk chocolate bars flood the market through many different outlets. Intensive distribution is normally used for low-cost consumer goods such as candy and magazines. In contrast, **exclusive distribution** occurs when a manufacturer grants the exclusive right to distribute or sell a product to one wholesaler or retailer in a given geographic area. For example, Jaguar automobiles are sold by only a single dealer servicing a large metropolitan area. **Selective distribution** falls between intensive and exclusive distribution. A company that uses this strategy selects only wholesalers and retailers who will give special attention to the product in terms of sales efforts, display position, etc. This method is usually embraced by companies like Black & Decker, whose product lines do not require intense market exposure to increase sales.

Channel Conflict and Channel Leadership

Channel conflict occurs when members of the distribution channel disagree over the roles they should play or the rewards they should receive. John Deere, for example, would no doubt object if its dealers began distributing Russian and Japanese tractors. Channel conflict may also arise if one member has more power than the others or is viewed as receiving preferential treatment. Such conflicts defeat the purpose of the system by disrupting the flow of goods to their destinations. Usually, one channel member—the **channel captain**—is the most powerful

INTENSIVE DISTRIBUTION A distribution strategy in which a product is distributed in nearly every possible outlet, using many channels and channel members.

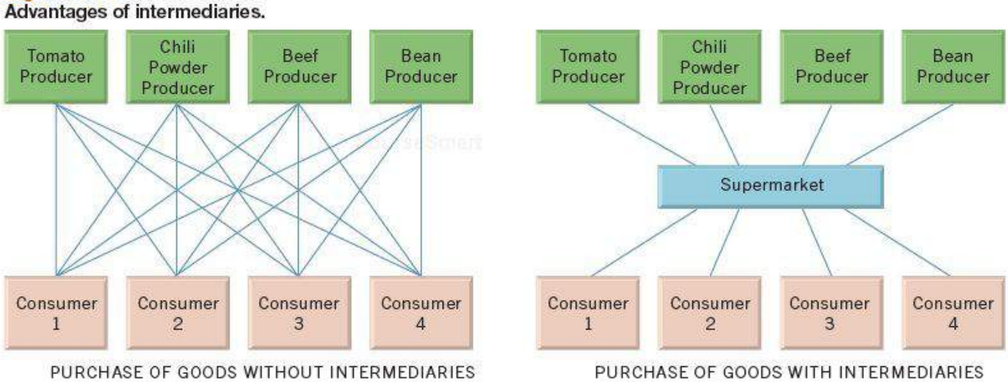
EXCLUSIVE DISTRIBUTION A distribution strategy in which a product's distribution is limited to only one wholesaler or retailer in a given geographic area.

SELECTIVE DISTRIBUTION A distribution strategy that falls between intensive and exclusive distribution, calling for the use of a limited number of outlets for a product.

CHANNEL CONFLICT Conflict arising when the members of a distribution channel disagree over the roles they should play or the rewards they should receive.

CHANNEL CAPTAIN The channel member that is the most powerful in determining the roles and rewards of organizations involved in a given channel of distribution.

Figure 14.3
Advantages of intermediaries.



VERTICAL MARKETING SYSTEM (VMS) A system in which there is a high degree of coordination among all the units in the distribution channel so that a product moves efficiently from manufacturer to consumer.

MERCHANT WHOLESALER An independent business that buys and takes legal possession of goods before selling them to customers.

AGENTS AND BROKERS Intermediaries who do not take title to goods, and who act as sales and merchandising organizations for producers who do not have their own sales forces.

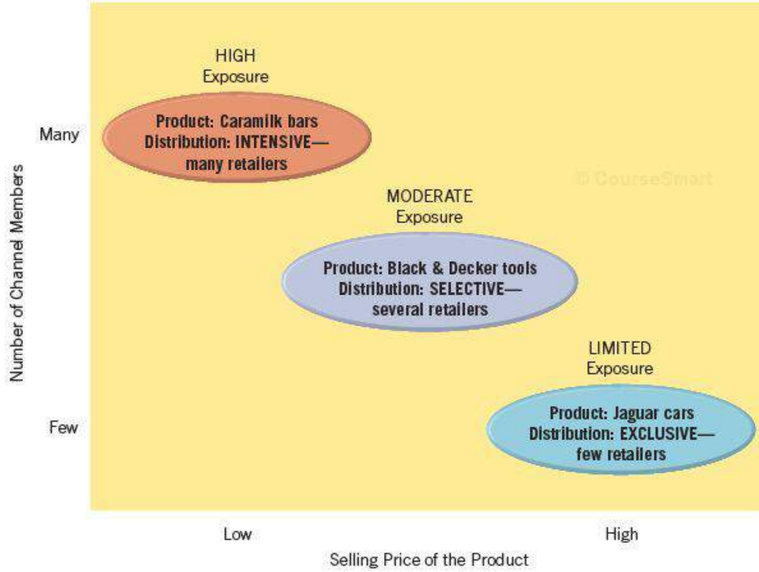


Figure 14.4
Amounts of market exposure from the three kinds of distribution.

in determining the roles and rewards of other members. The channel captain might be a manufacturer, or it might be a large retailer like Walmart that generates large sales volumes.

Vertical marketing systems (VMSs) are designed to overcome the problems of channel conflict. In a VMS, separate businesses join to form a unified distribution channel, with one member coordinating the activities of the whole channel. In a *corporate VMS*, all stages in the channel are under single ownership. The Limited, for example, owns both the production facilities that manufacture its apparel and the retail stores that sell it. In a *contractual VMS*, channel members sign contracts agreeing to specific duties and rewards. The Independent Grocers Alliance (IGA), for example, consists of independent retail grocers joined with a wholesaler who contractually leads—but does not own—the VMS. Most franchises are contractual VMSs.

LO-4 Wholesaling

Now that you know something about distribution channels, we can look more closely at the role of intermediaries. As noted earlier, wholesalers are independent companies that buy products from manufacturers and sell them to other businesses. Wholesalers provide a variety of services to their customers, who are buying products for resale to consumers or other businesses. In addition to storing and providing an assortment of products, wholesalers may offer delivery, credit, product information, and merchandising services such as marking prices and setting up displays. **Merchant wholesalers** take title to merchandise, that is, they buy and own the goods they resell to other businesses.

In contrast, **agents and brokers** (including internet e-brokers) do not own the merchandise they sell. Rather, they serve as sales and merchandising arms for producers who do not have their own sales forces. The value of agents and brokers lies in their knowledge of markets and their merchandising expertise. They show sale items to potential buyers and, for retail stores, they provide such services as shelf and display merchandising and advertising layout. They remove open, torn, or dirty packages, arrange products neatly, and generally keep goods attractively displayed. Many supermarket products are handled through brokers.

LO-5 Retailing

You may not have had much contact with wholesalers, but like most Canadians, you buy nearly all the goods and services you consume from retailers. Most retailers are small operations, often consisting of just the owners and part-time help. But there are some very large retailers, and these account for billions of dollars of sales each year. Walmart is the largest retailer in Canada.

Types of Retail Outlets

Canadian retail operations vary widely by type as well as size. We can classify them in various ways: by their pricing strategies, location, range of services, or range of product lines. Choosing the right types of retail outlets is a crucial aspect of every seller's distribution strategy. There are three main classifications of retail outlets: *product line retailers*, *bargain retailers*, and *convenience stores*.

Product Line Retailers Retailers featuring broad product lines include **department stores** like the Bay, which are organized into specialized departments like shoes, furniture, women's clothing, and so on. Stores are usually large, handle a wide range of goods, and offer a variety of services, such as credit plans and delivery. Similarly, **supermarkets** like Loblaws, Sobeys, and Safeway are divided into departments of related products: food products, household products, and so forth. They stress low prices, self-service, and wide selection. In contrast, **specialty stores** are small stores that carry one line of related products. They serve specific market segments with full product lines in narrow product fields and often feature knowledgeable sales personnel. Sunglass Hut International stores, for example, have a deep selection of competitively priced sunglasses.

Bargain Retailers **Bargain retailers** carry wide ranges of products and come in many forms. The first **discount houses** sold large numbers of items (such as TVs and other appliances) at substantial price reductions to cash-only customers. As name-brand items became more common, they offered better product assortments while still transacting cash-only sales in low-rent facilities. As they became more firmly entrenched, they began moving to better locations, improving their decor, and selling better-quality merchandise at higher prices. They also began offering a few department store services, such as credit plans and noncash sales.

Catalogue showrooms mail catalogues to attract customers into showrooms to view display samples, place orders, and wait briefly while clerks retrieve orders from attached warehouses. **Factory outlets** are manufacturer-owned stores that avoid wholesalers and retailers by selling merchandise directly from factory to consumer. **Wholesale clubs** like Costco offer large discounts on a wide range of brand-name merchandise to customers who pay annual membership fees.

Convenience Stores Neighbourhood food retailers, such as Mac's and 7-Eleven, are **convenience store** chains, which offer ease of purchase. They stress easily accessible locations, extended store hours, and speedy service. They differ from most bargain retailers in that they do not feature low prices. Like bargain retailers, they control prices by keeping in-store service to a minimum. In 2009, more than 2300 convenience stores closed across Canada, partly because contraband cigarettes siphoned off about $2.5 billion in sales. The Canadian Convenience Stores Association estimates that half of Ontario's cigarette sales and 40 percent of Quebec's are cheap black-market cigarettes on which no tax has been paid.[16]

The boxed insert entitled "The Bag Controversy" contains some surprising facts about the different types of bags that retailers provide for customers.

Nonstore Retailing

Not all goods and services are sold in stores. In fact, some of the nation's largest retailers sell all or most of their products without bricks-and-mortar stores. For example, certain types of consumer goods—soft drinks, candy, and cigarettes—lend themselves to distribution in vending machines. However, vending machine sales still represent only a small proportion of all retail sales.

Direct-Response Retailing In **direct-response retailing**, companies contact customers directly

DEPARTMENT STORES Large retail stores that offer a wide variety of high-quality items divided into specialized departments.

SUPERMARKETS Large retail stores that offer a variety of food and food-related items divided into specialized departments.

SPECIALTY STORES Small retail stores that carry one line of related products.

BARGAIN RETAILERS Retail outlets that emphasize low prices as a means of attracting consumers.

DISCOUNT HOUSES Bargain retail stores that offer major items such as televisions and large appliances at discount prices.

CATALOGUE SHOWROOM A bargain retail store in which customers place orders for items described in a catalogue and pick up those items from an on-premises warehouse.

FACTORY OUTLETS Bargain retail stores that are owned by the manufacturers whose products they sell.

WHOLESALE CLUBS Huge, membership-only, combined retail wholesale operations that sell brand-name merchandise.

CONVENIENCE STORES Retail stores that offer high accessibility, extended hours, and fast service on selected items.

DIRECT-RESPONSE RETAILING A type of retailing in which firms make direct contact with customers both to inform them about products and to receive sales orders.

DIRECT SELLING Form of non-store retailing typified by door-to-door sales.

MAIL ORDER (CATALOGUE MARKETING) A form of non-store retailing in which customers place orders for merchandise shown in catalogues and receive their orders via mail.

to inform them about products and to receive sales orders. The oldest form of retailing, **direct selling**, is still used by companies like Avon and Tupperware that sell door-to-door or through home-selling parties. Avon has more than 4 million sales reps in 100 countries,[17] and Tupperware has more than 60000 salespeople just in Russia.[18] The Fuller Brush Company was started in 1906 by Arthur Fuller, a self-described "country bumpkin" from Nova Scotia. The company used to be well known in door-to-door selling, but sweeping changes in North American society—women leaving the home to work, mass retailing, and the globalization of business—caused the company to fall on hard times. Two of its most famous salesmen were the Reverend Billy Graham and disc jockey Dick Clark.

Mail order (or **catalogue marketing**) is another popular form of direct-response retailing. So is **telemarketing**—the use of the telephone to sell directly. It is growing rapidly

THE GREENING OF BUSINESS

The Bag Controversy

Canadians use 55 million plastic bags each *week*. Concerns about plastic bags have motivated retailers to take action. Consider the following examples:

- Cities as different as San Francisco, California, and Leaf Rapids, Manitoba, have banned the use of plastic bags; several grocers in Nova Scotia are also considering the move.
- Walmart and many other retailers are training their cashiers to ask customers if they even need a bag of any kind.
- Loblaws has sold more than 14 million reusable bags, and the number of plastic bags given to customers has been reduced by 20 percent.
- Many stores, including IKEA and No Frills charge customers for plastic bags and try to encourage consumers to use reusable bags.
- Mountain Equipment Co-op wants to convince customers to stop using disposable bags altogether, so it makes a five-cent donation to environmental groups each time a customer declines to take a plastic bag.

In spite of these trends, there is actually no consensus about which type of bag is the most environmentally friendly: paper bags, plastic bags, or reusable cloth. At first glance, it might seem obvious that plastic bags are the worst because they have generated the most negative publicity. It might also seem obvious that reusable cloth or canvas bags are the best because they can be reused. But each type of bag has advantages and disadvantages. To determine which type of bag is best requires a consideration of many factors, including input and output costs, distribution costs, and reclamation costs.

To give you an idea of the complexity of the issue, consider a few facts. Since plastic bags are made from fossil fuels, they can take up to 1000 years to degrade. Even when they do degrade, the toxins they contain get into the soil. They are also an eyesore when they blow around landfills and elsewhere. Paper bags are better than plastic bags because they are made from natural materials, while plastic bags are synthetic. But the production of paper bags generates 70 percent more emissions and 50 percent more water pollution than plastic bags. Eco-friendly reusable cotton bags also have problems because cotton requires a lot of water (and pesticides) to grow. As well, they may also contain bacterial contaminants (one study showed that 30 percent of reusable bags had unsafe levels of bacterial contaminants, and 40 percent contained yeast or mould). Plastic bags do not have either of these problems. Given all these advantages and disadvantages, it is difficult for consumers to know which alternative is best.

Use of plastic bags is not the only issue facing retailers. Consumers are also starting to demand that retailers provide more eco-friendly packaging that is biodegradable, recycled, or reusable. One alternative to traditional plastic bottles is polyethylene terephthalate plastic bottles, which can be produced from recycled material. And remember that old-fashioned glass is 100 percent recyclable. Consumers also want less packaging overall, whatever type it is.

Critical Thinking Question

1. All things considered, which shopping bag do you think is best: plastic, paper, or reusable cloth bags? Defend your answer.

in Canada and Great Britain, but suffered a downturn in the United States with recent state and national do-not-call registries. **E-intermediaries** are internet-based channel members who perform one or both of the following functions: (1) they collect information about sellers and present it to consumers, or (2) they help deliver internet products to buyers. Three important types of e-intermediaries are *syndicated sellers*, *shopping agents*, and *e-retailers*.

Syndicated Sellers **Syndicated selling** occurs when one website offers another a commission for referring customers. Expedia.com, the world's leading online travel service, shows a list of car rental companies such as Dollar Rent A Car on its website. When Expedia customers click on the Dollar banner for a car rental, they are transferred from the Expedia site to the Dollar site. Dollar pays Expedia a fee for each booking that comes through this channel. Although the new intermediary increases the cost of Dollar's supply chain, it adds value for customers. Travellers avoid unnecessary cyberspace searches and are efficiently guided to a car-rental agency.[19]

Shopping Agents **Shopping agents (e-agents)** help internet consumers by gathering and sorting information. Although they don't take possession of products, they know which websites and stores to visit, give accurate comparison prices, identify product features, and help consumers complete transactions by presenting information in a usable format—all in a matter of seconds. PriceScan.com is among the better-known cyber-shopping agents, but there are many others as well. Since e-agents have become so plentiful, unsure shoppers are turning to rating sites such as eSmarts.com that evaluate and compare e-agents.

E-commerce intermediaries called *business-to-business (B2B) brokers* have also emerged for business customers. The pricing process between B2B buyers and sellers of commodities can be outsourced, for example, to an internet company like Ariba. As a pricing broker, Ariba links any large-volume buyer with potential suppliers that bid to become the supplier for the buyer. Client companies (the commodity buyers), such as Quaker Oats or Emerson Electric, pay Ariba a fixed annual subscription fee and receive networking into Ariba's auction headquarters, where real-time bids come in from suppliers at remote locations. The website provides up-to-date information until the bidding ends with the low-price supplier. In conducting the pricing transactions electronically, Ariba doesn't take possession of any products. Rather, it brings together timely information and links businesses to one another.[20]

Electronic Retailing **Electronic retailing** (also called *e-tailing*) allows consumers to shop from home using the internet. Sears Canada, one of the most popular e-tailers in Canada, offers more than 10 000 items for sale on its website.[21] E-tailing is made possible by communications networks that let sellers post product information on consumers' personal computers. E-tailing sales are increasing as more people shop online with their personal computers.

Electronic Catalogues **E-catalogues** use the internet to display products for both retail and business customers. Using electronic displays (instead of traditional mail catalogues), gives millions of users instant access to pages of product information. The seller avoids mail-distribution and printing costs, and once an online catalogue is in place, there is little cost in maintaining and accessing it. Recognizing these advantages, about 85 percent of all cataloguers are now on the internet, with sales via websites accounting for 10 percent of all catalogue sales. Popular consumer e-catalogues include JCPenney, L.L. Bean, and Victoria's Secret. Top B2B e-catalogues include Dell and Office Depot.[22]

Internet-Based Stores It is estimated that in 2010, Canadians bought nearly $12 billion worth of goods and services over the internet. As large as this number seems, it still represents less than 5 percent of the total dollars that consumers spent on goods and services in 2010.[23] But growth is rapid. At Sears Canada, for example, online sales in 2010 were about 10 percent of Sears' total sales, up from about 2 percent as recently as 2005.[24] Forrester Research predicts that e-commerce sales will keep growing at a 10 percent compounded annual rate through 2014, and that e-commerce sales will represent 8 percent of retail sales by 2014.[25] More information on the growth of e-business is presented in the boxed insert entitled "Exploiting E-Distribution Opportunities."

TELEMARKETING Use of the telephone to sell directly to consumers.

E-INTERMEDIARIES Internet-based distribution-channel members that collect information about sellers and present it in convenient form to consumers and/or help deliver internet products to consumers.

SYNDICATED SELLING Occurs when a website offers other websites a commission for referring customers.

SHOPPING AGENT (E-AGENT) A type of intermediary that helps internet consumers by gathering and sorting information they need to make purchases.

ELECTRONIC RETAILING Non-store retailing in which information about the seller's products and services is connected to consumers' computers, allowing consumers to receive the information and purchase the products in the home.

E-CATALOGUES Non-store retailing that uses the internet to display products and services for both retail shoppers and business customers.

E-BUSINESS AND SOCIAL MEDIA SOLUTIONS

Exploiting E-Distribution Opportunities

When retailers initially got into online selling, they often kept their sites separate from traditional outlets. But this led to confusion when customers were unable to exchange items in stores. Similarly, today organizations are struggling with the implementation of social media strategies. Here are some recent developments in e-distribution:

- Amazon is the poster child for e-distribution success. It is the key destination for book and DVD sales and has a growing presence in everything from glassware to patio furniture. Amazon's development of the Kindle e-reader further demonstrates its willingness to embrace new distribution trends. Amazon created the Kindle even though it had no previous experience in hardware development.
- Walmart transformed the traditional retail landscape, and it is now serious about online sales as well. It announced its intentions by slashing prices to $9 on 10 hot upcoming books. Walmart is using these books as loss leaders to gain attention and drive traffic to its e-store. It clearly plans to attack Amazon's position.
- Sears Canada has leveraged its traditional strength in catalogue sales with internet distribution. Today the company is focused on creating "an endless aisle." Sears Canada recently hired 80 e-commerce specialists, many from rivals like Indigo and Home Depot. It plans to double online sales in the next five years. Sears is taking advantage of the poor online presence of competitors like the Bay.
- In 2010, Procter & Gamble surprised retailers by announcing that it would sell hundreds of its brands, including Tide and Pampers, in its new e-store. This places P & G in direct competition with its retailers. P & G executives argue that the site will actually provide consumer research, which could benefit loyal retailers.
- HMV was slow to embrace digital music distribution. In Canada, HMV Digital was launched in 2009 (iTunes.ca launched in 2004). When the music industry switched from records to CDs, HMV made a seamless transition. But it did not react quickly to this new distribution challenge and suffered. HMV is now trying to regain strength; it has an uphill battle, but it's a step in the right direction.

New technology continues to revolutionize distribution relationships. For example, the fastest-growing cellphone activity is shopping directly from mobile devices. Success today is measured by a company's ability to identify challenges and opportunities, and to develop solutions that satisfy consumers and the bottom line. It's not an easy task.

Critical Thinking Questions

1. What are the strengths and weaknesses of e-distribution?
2. Have you ever purchased items from any of these sites? Were your experiences positive or negative? Explain.

Ice.com, a Montreal-based company, is a typical internet-based store that sells mid- and low-priced jewellery over the internet, mostly to U.S. customers. The company is profitable because it deals in products that are high-value, high-margin, small-size, and easy to ship to customers.[26]

Using the internet to do *comparison shopping* is increasing rapidly. Internet sites like Ask Jeeves, Google, and Yahoo allow consumers to compare prices and products before making a purchase. E-commerce is still in its infancy, and there is a lot of room for growth.

More than 30 000 Canadians are "small retailers" who make a significant portion of their annual income by selling goods and services on sites like eBay, Kijiji, and craigslist. But they often do not pay income or sales tax on their sales, so both the Canada Revenue Agency and the federal government are losing millions of dollars in tax revenues each year. The Federal Court of Appeal has ordered eBay to provide information on people who sell more than $1000 per month on its site.[27] eBay is also planning to retreat from its recently adopted strategy of selling new goods over the internet, and will return to its original strategy of being the web's flea market.[28]

Electronic Storefronts and Cybermalls Today, a seller's website is an **electronic storefront** (or *virtual storefront*) from which consumers collect information about products and buying opportunities, place orders, and pay for purchases. Producers of large product lines, such as Dell, dedicate storefronts to their own product lines. Other sites, such as Newegg.com—which offers computer and other electronics equipment—are category sellers whose storefronts feature products from many manufacturers.

Search engines like Yahoo! serve as **cybermalls**: collections of virtual storefronts representing diverse products. After entering a cybermall, shoppers can navigate by choosing from a list of stores (e.g., L.L. Bean or Lands' End), product listings (e.g., computers or MP3 players), or departments (e.g., apparel or bath and beauty). When your virtual shopping cart is full, you check out and pay your bill. The value-added properties of cybermalls are obvious: speed, convenience, 24-hour access, and efficient searching.

Interactive and Video Marketing Today, both retail and B2B customers interact with multimedia sites using voice, graphics, animation, film clips, and access to live human advice. One good example of **interactive marketing** is LivePerson.com, a leading provider of real-time sales and customer service for over 3000 websites. When customers log on to the sites of Bell Canada, Toyota, Earthlink, Hewlett Packard, and Microsoft—all of which are LivePerson clients—they can enter a live chat room where a service operator initiates a secure one-to-one text chat. Questions and answers go back and forth to help customers get answers to specific questions before deciding on a product. Another form of interaction is the so-called banner ad that changes as the user's mouse moves about the page, revealing new drop-down, check, and search boxes.

Video marketing, a long-established form of interactive marketing, lets viewers shop at home through home-shopping channels that display and demonstrate products and allow viewers to phone in or email orders. One U.S. network, QVC, also operates in the United Kingdom, Germany, Mexico, and South America.

ELECTRONIC STOREFRONT A seller's website in which consumers collect information about products and buying opportunities, place sales orders, and pay for their purchases.

CYBERMALLS Collections of virtual storefronts representing diverse products.

INTERACTIVE MARKETING Selling products and services by allowing customers to interact with multimedia websites using voice, graphics, animation, film clips, and access to live human advice.

VIDEO MARKETING Selling to consumers by showing products on television that consumers can buy by telephone or mail.

PHYSICAL DISTRIBUTION Those activities needed to move a product from the manufacturer to the end consumer.

LO-6 Physical Distribution

Physical distribution refers to the activities needed to move products efficiently from manufacturer to consumer. The goals of physical distribution are to keep customers satisfied, to make goods available when and where consumers want them, and to keep costs low. Companies are continually experimenting with physical distribution to improve efficiency and open new markets. For example, Maersk Line and Aqualife AS have partnered to create a transport system to ship seafood from Canada's east coast aquaculture companies to customers in Europe. Specialized tanks on board the ships oxygenate water without having to use pumps. The new system will help to open new markets for aquaculture products grown in Canada.[29] Another example: Coca-Cola Co. decided to take over Coca-Cola Enterprises (CCE)—which focused on bottling and distribution—because Coca-Cola Co. thought it could better manage its various brands and cut distribution costs. Pepsi had done the same thing with its bottlers in 2009.[30]

Bob Bowersox is getting ready to offer bedding made by a company called Northern Lights, which distributes regularly through the TV home shopping channel. Northern Lights also sells sheets, pillows, and other bedding products. It markets them through such electronic retailing outlets as eBay and Shopping.com, as well as QVC.

WAREHOUSING That part of the distribution process concerned with storing goods.

PRIVATE WAREHOUSE A warehouse owned and used by just one company.

PUBLIC WAREHOUSE An independently owned and operated warehouse that stores the goods of many firms.

Physical distribution includes *warehousing* and *transporting operations,* as well as *distribution for e-customers.*

Warehousing Operations

Storing or **warehousing** products is a major function of distribution management. There are two basic types of warehouses: *private* and *public*. **Private warehouses** are owned by and provide storage for just one company, be it a manufacturer, a wholesaler, or a retailer. Most are used by large firms that deal in mass quantities and need storage regularly. **Public warehouses** are independently owned and operated. Companies that use these warehouses pay for the actual space used. Public warehouses are popular with firms that need such storage only during peak business periods. They are also used by manufacturers that want to maintain stock in numerous locations to get their products to many markets quickly. Within these two categories, we can further divide warehouses according to their use as *storage warehouses* (which provide storage for extended periods) or as *distribution centres* (which store products whose market demand is constant and high).

LO-7 Transportation Operations

The highest cost faced by many companies is that of physically moving a product, so cost is a major consideration in managing transportation operations. In 2010, Walmart decided to take over the delivery of products to its stores from any manufacturer where Walmart could do the job cheaper. These savings will be used to further cut prices at its retail stores.[31] When managing transportation operations, firms must also consider other factors such as the nature of the product, the distance it must travel, the speed with which it must be received, and customer wants and needs. These vary across different transportation modes.

Transportation Modes

The major transportation modes are *trucks*, *railroads*, *planes*, *water carriers*, and *pipelines*. Differences in cost are most directly related to the speed of delivery.

Trucks The advantages of trucks include flexibility, fast service, and dependability. Nearly all areas of Canada, except the far north, can be reached by truck. Trucks are a particularly good choice for short-distance distribution and more expensive products. Large furniture and appliance retailers in major cities, for example, use trucks to shuttle merchandise between their stores and to make deliveries to customers. Trucks can, however, be delayed by bad weather. They also are limited in the volume they can carry in a single load.

Planes Air is the fastest available transportation mode, and in Canada's far north, it may be the only available transportation. Other advantages include greatly reduced costs in packing, handling, unpacking, and final preparations necessary for sale to the consumer. Also, inventory carrying costs can be reduced by eliminating the need to store certain commodities. In recent years, a whole new industry has evolved to meet the customers' need to receive important business papers and supplies "overnight." Fresh fish, for example, can be flown to restaurants each day, avoiding the risk of spoilage that comes with packaging and storing a supply of fish. Air freight, however, is the most expensive form of transportation. Spanish apparel chain Zara is willing to pay the extra cost because it can get new merchandise to stores in Europe within 24 hours by using air freight. Because Zara minimizes the inventory it carries, it doesn't have to cut prices to move

Modern long-haul trucks have satellite capabilities, anti-collision radar, vehicle-detection sensors, computers for shifting through 10 speeds, and roomy cabs with sleepers, refrigerators, and microwave ovens.

out-of-date apparel items, so it earns higher margins on the products it sells.[32]

Railroads Railroads have been the backbone of our transportation system since the late 1800s. They are now used primarily to transport heavy, bulky items such as cars, steel, and coal. They are limited by fixed, immovable rail tracks.

Water Carriers Water transportation is the least expensive, but slowest, way to ship. Boats and barges are mainly used for extremely heavy, bulky materials and products (like sand, gravel, oil, and steel) for which transit times are unimportant. The St. Lawrence Seaway is a vital link in Canada's water transportation system, and water transportation is particularly important in Canada's far north. For example, barges deliver commodities like fuel oil to various isolated hamlets along the western edge of Hudson's Bay during the summer months, and Northern Transportation Company Ltd. moves freight on the Athabasca River because of demand created by the oil sands projects in northern Alberta.[33]

Pipelines Like water transportation, pipelines are slow in terms of overall delivery time. They are also completely inflexible, but they do provide a constant flow of the product and are unaffected by weather conditions. Traditionally, this delivery system has transported liquids and gases. Lack of adaptability to other products and limited routes make pipelines a relatively unimportant transportation method for most industries.

Intermodal Transportation **Intermodal transportation**—the combined use of different modes of transportation—has come into widespread use. For example, shipping by a combination of truck and rail ("piggy-back"), water and rail ("fishy-back"), or air and rail ("birdy-back") has improved flexibility and reduced costs.

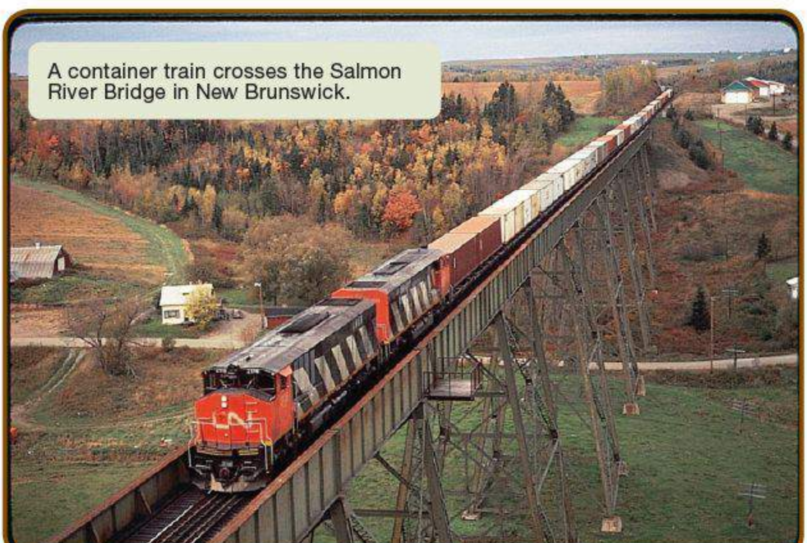
INTERMODAL TRANSPORTATION The combined use of different modes of transportation.

ORDER FULFILLMENT All activities involved in completing a sales transaction, beginning with making the sale and ending with on-time delivery to the customer.

Distribution for E-Customers

New e-commerce companies often focus on sales, only to discover that delays in after-the-sale distribution cause customer dissatisfaction. **Order fulfillment** begins when the sale is made. It involves getting the product to each customer in good condition and on time. But the volume of a firm's transactions can be huge, and fulfillment performance—in terms of timing, content, and terms of payment—has been a source of irritation to many e-business customers.

To improve on-time deliveries, many businesses maintain distribution centres and ship from their own warehouses. Other e-tailers, however, outsource order filling to distribution specialists, such as the giant UPS e-logistics and the much smaller CaseStack, to gain reliable performance. Both CaseStack and UPS process orders, ship goods, provide information about product availability and order status, and handle returns. To perform these tasks, the client's computer system must be networked with that of the distribution specialist.


A container train crosses the Salmon River Bridge in New Brunswick.

Physical Distribution as a Marketing Strategy

Distribution is an increasingly important way of competing for sales. Instead of just offering advantages in product features and quality, price, and promotion, many firms have turned to distribution as a cornerstone of business strategy. This approach means assessing and improving the entire stream of activities—wholesaling, warehousing, and transportation—that are required to get products to customers.

Consider, for example, the distribution system of National Semiconductor, one of the world's largest computer-chip makers. Finished microchips are produced in plants around the world and shipped to customers, such as IBM, Toshiba, and Compaq, which also run factories around the globe. Chips originally sat waiting at one location after another—on factory floors, at customs, in distributors' facilities, and in customers' warehouses. Typically, they travelled 20 000 different routes on as many as 12 airlines and spent time in 10 warehouses before reaching customers. National has streamlined the system by shutting down six warehouses and now air freights chips worldwide from a single centre in Singapore. Every activity—storage, sorting, and shipping—is run by FedEx. By outsourcing the activities, National's distribution costs have fallen, delivery times have been reduced by half, and sales have increased.

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Summary of Learning Objectives

1. **Identify the various *pricing objectives* that govern pricing decisions and describe the price-setting tools used in making these decisions.** The two main pricing objectives are *pricing to maximize profits* and *pricing to achieve market share objectives*. Price-setting tools include *cost-oriented pricing* (considering both the firm's desire to make a profit and the need to cover production costs), and *break-even analysis* (assessing total costs versus revenues for various sales volumes).
2. **Discuss *pricing strategies* and *tactics* for existing and new products.** The three options for pricing existing products are *pricing above the market, pricing below the market,* and *pricing at the market.* Companies *pricing new products* must often choose between *price skimming* (setting an initially high price to cover costs and generate a profit) or *penetration pricing* (setting an initially low price to establish a new product in the market). *Pricing tactics* include *price lining* (offering all items in certain categories at a limited number of prices), *psychological pricing* (appealing to buyers' perceptions of relative prices), and *discounting* (reducing prices to stimulate sales).
3. **Explain the *distribution mix*, the different *channels of distribution*, and the different *distribution strategies* that businesses use.** In selecting a *distribution mix*, a firm may use all or any of four *channels of distribution*. Channel 1 involves direct sales to consumers; Channel 2 includes a *retailer*; Channel 3 involves both a retailer and a *wholesaler*; and Channel 4 includes an *agent* or *broker* who enters the system before the wholesaler and retailer. *Distribution strategies* include *intensive*, *exclusive*, and *selective distribution*, which differ in the number of products and channel members involved and in the amount of service performed in the channel.
4. **Explain the differences among *wholesalers, agents/brokers*, and *retailers*.** *Wholesalers* are independent companies that buy products from manufacturers and sell them to other businesses. Wholesalers take title to the goods they sell, and they may also extend credit as well as store, repackage, and deliver products to other members of the channel. *Agents and brokers* do not own the merchandise they sell. Rather, they serve as sales and merchandising arms for producers that do not have their own sales forces. *Retailers* sell products directly to consumers.
5. **Identify the different types of *retail stores* and the activities of *e-intermediaries*.** Retail operations are classified as *product line retailers* (including department stores, supermarkets, and specialty stores),

bargain retailers (including discount houses, catalogue showrooms, factory outlets, warehouse clubs), and *convenience stores*. *Non-store retailing* includes direct-response retailing, mail order, telemarketing, direct selling, electronic retailing, e-catalogues, electronic storefronts, and cybermalls. *E-intermediaries* are internet-based channel members that perform functions like collecting information about sellers and presenting it to consumers, or helping to deliver internet products. They include *syndicated selling* (a website offers other websites a commission for referring customers), *shopping agents* (who help internet consumers by gathering and sorting information), and *business-to-business brokers* (who are intermediaries for business customers).

6. **Define *physical distribution* and describe the major activities in *warehousing operations*.** *Physical distribution*—the activities needed to move products from manufacturer to consumer—include *warehousing* (the storage of goods) and transportation of goods (including the movement of goods to e-customers). *Private warehouses* are owned and used by a single manufacturer, wholesaler, or retailer. *Public warehouses* are independently owned and operated and permit companies to rent only the space they need. *Storage warehouses* provide storage for extended periods. *Distribution centres* store products whose market demand is constant and high.

7. **Compare the five basic forms of *transportation* and explain how distribution can be used as a marketing strategy.** There are five modes of transportation, and differences in cost are most directly related to delivery speed. The advantages of *trucks* include flexibility, fast service, and dependability. *Railroads* are now used primarily to transport heavy, bulky items such as cars and steel. *Planes* provide the fastest mode of transportation, but air freight is the most expensive form of transportation. *Water carriers* are the least expensive but the slowest. *Pipelines* are slow and inflexible but provide a constant flow of products and are unaffected by weather. Many firms regard distribution as a cornerstone of their business strategy. This approach means assessing and streamlining the entire range of activities involved in getting products to customers.

Questions and Exercises

Questions for Analysis

1. How do cost-oriented pricing and break-even analysis help managers measure the potential impact of prices?
2. What general factors motivate marketing managers to price their products at, above, or below prevailing market prices?
3. From the manufacturer's point of view, what are the advantages and disadvantages of using intermediaries to distribute products? What are the advantages and disadvantages from the end-user's point of view?
4. Identify several products in each of the three distribution strategy categories (intensive, selective, and exclusive). What are the characteristics of the products in each category? Is there a pattern? Explain.
5. How do the activities of e-agents (internet shopping agents) or brokers differ from those of traditional agents/brokers?
6. A retailer buys a product from a manufacturer for $25 and sells it for $45. What is the markup percentage? Explain what the term "markup percentage" means.

Application Exercises

7. Consider the various kinds of non-store retailing. Give examples of two products that typify the kinds of products sold to consumers through each form of non-store retailing. Are different products best suited to each form of non-store retailing? Explain.
8. Novelties Ltd. produces miniature Canadian flag decals. The fixed costs for their latest project are $5000. The variable costs are $0.70/flag, and the company should be able to sell them for $2 apiece. How many flags must Novelties Ltd. sell to break even? How many flags must the company sell to make a profit of $2000? If the maximum number of flags the company can sell is 5000, should it get involved in this project?
9. Select a product with which you are familiar and analyze various possible pricing objectives for it. What information would you want to have if you were to adopt a profit-maximizing objective? A market-share objective?
10. Interview the manager of a local manufacturing firm. Identify the firm's distribution strategy and the channels of distribution that it uses. Where applicable, describe the types of wholesalers or retail stores used to distribute the firm's products.

TEAM EXERCISES

Building Your Business Skills

Are You Sold on the Net?

Goal

To encourage students to consider the value of online retailing as an element in a company's distribution system.

Situation

As the distribution manager of a privately owned clothing manufacturer specializing in camping gear and outdoor clothing, you are convinced that your product line is perfect for online distribution. However, the owner of the company is reluctant to expand distribution from a successful network of retail stores and a catalogue operation. Your challenge is to convince the boss that retailing via the internet can boost sales.

Method

Step 1 Join together with four or five classmates to research the advantages and disadvantages of an online distribution system for your company. Among the factors to consider are the following:

- The likelihood that target consumers are internet shoppers. Camping gear is generally purchased by young, affluent consumers who are comfortable with the web.
- The industry trend to online distribution. Are similar companies doing it? Have they been successful?
- The opportunity to expand inventory without increasing the cost of retail space or catalogue production and mailing charges.
- The opportunity to have a store that never closes.
- The lack of trust many people have about doing business on the web. Many consumers are reluctant to provide credit card data over the web.
- The difficulty that electronic shoppers have in finding a website when they do not know the store's name.
- The certainty that the site will not reach consumers who do not use computers or who are uncomfortable with the web.

Step 2 Based on your findings, write a persuasive memo to the company's owner stating your position about expanding to an online distribution system. Include information that will counter expected objections.

Follow-Up Questions

1. What place does online distribution have in the distribution network of this company?
2. In your view, is online distribution the wave of the future? Is it likely to increase in importance as a distribution system for apparel companies? Why or why not?

Exercising Your Ethics

The Chain of Responsibility

The Situation

Because several stages are involved when distribution chains move products from supply sources to end consumers, the process offers ample opportunity for ethical issues to arise. This exercise encourages you to examine some of the ethical issues that can emerge during transactions among suppliers and customers.

The Dilemma

A customer bought an expensive wedding gift at a local store and asked that it be shipped to the bride in another province. Several weeks after the wedding, the customer contacted the bride, who had not confirmed the arrival of the gift. It hadn't arrived. Charging that the merchandise had not been delivered, the customer requested a refund from the retailer. The store manager uncovered the following facts:

- All shipments from the store are handled by a well-known national delivery firm.

- The delivery firm verified that the package had been delivered to the designated address two days after the sale.
- Normally, the delivery firm does not obtain recipient signatures; deliveries are made to the address of record, regardless of the name on the package.

The gift giver argued that even though the package had been delivered to the right address, it had not been delivered to the named recipient. It turns out that, unbeknownst to the gift giver, the bride had moved. It stood to reason, then, that the gift was in the hands of the new occupant at the bride's former address. The manager informed the gift giver that the store had fulfilled its obligation. The cause of the problem, she explained, was the incorrect address given by the customer. She refused to refund the customer's money and suggested that the customer might want to recover the gift by contacting the stranger who received it at the bride's old address.

Team Activity

Assemble a group of four students and assign each group member to one of the following roles:

- Customer (the person who had originally purchased the gift)
- Employee (of the store where the gift was purchased)
- Bride (the person who was supposed to receive the gift)
- Customer service manager (of the delivery company)

Action Steps

1. Before hearing any of your group's comments, and from the perspective of your assigned role, decide whether there are any ethical issues in this situation. If so, write them down.
2. Before hearing any of your group's comments, and from the perspective of your assigned role, decide how this dispute should be resolved.
3. Together with your group, share the ethical issues that were identified. What responsibilities does each party—the customer, the store, and the delivery company—have in this situation?
4. What does your group recommend be done to resolve this dispute? What are the advantages and disadvantages of your recommendations?

BUSINESS CASE 14

Changing Distribution Channels in the Music Business

Physical distribution of music in the form of CDs is rapidly declining, and digital distribution of music is rapidly increasing. A report by PriceWaterhouseCoopers LLP (PWC) predicts that by 2011 physical music sales in Canada will decline to just $275 million. That's down from $572 million as recently as 2007. The *increase* in digital music delivery has been dramatic. In 2007, digital music sales were just $122 million in Canada (that was only one-fourth of the volume of physical music sales). The PWC study predicts that by 2011 digital sales from sites such as iTunes will increase to $366 million (that will be more than physical music sales).

Music piracy is getting worse as consumers share music on the internet, and this is hastening the decline of traditional music sales. During the period 1999–2009, for example, CD sales declined 50 percent in Canada. In contrast, worldwide digital music sales have increased more than tenfold since 2004. In response to the decline in traditional music formats, record stores have shifted their emphasis away from CDs and toward DVDs and video games.

The evolution of retail music sales shows how dramatically changes in technology can influence channels of distribution. For decades, consumers visited music stores, looked over the merchandise, and then decided what to buy (originally breakable records, then vinyl records, then eight-track tapes, then cassettes, and finally CDs). Then came internet stores offering thousands of titles in CDs and cassettes. Customers searched the lists, placed orders electronically or over the phone, and then received their music by mail.

Then came an online music service called Napster, where customers downloaded free software onto their computers that allowed them to put their music on Napster's website and trade with anyone else who was live on the internet at the same time. Not surprisingly, recording industry executives were not impressed with this new channel of distribution. They argued that file-sharing denied music artists the royalties they were due. The threat from Napster was seen as so great that the Recording Industry Association of America (RIAA) decided to prosecute. The courts soon shut Napster down for copyright infringement. But the victory was short-lived, and other file-sharing services like Morpheus, KaZaA, and Grokster popped up.

To combat illegal downloading, the recording industry launched two online music services—MusicNet and Pressplay. If customers used MusicNet, they paid $9.95 a month and got 100 downloads (but couldn't copy them and the deal expired at the end of the month). If they used Pressplay, they got 100 downloads for $24.95 per month (and the right to burn 20 tracks to a CD). Other similar services are offered by iTunes (the industry leader), Microsoft, Yahoo!, and a rejuvenated Napster.

The recording industry also filed lawsuits against Grokster and StreamCast Networks (the makers of Morpheus), and in 2005 the U.S. Supreme Court ruled that the entertainment industry could sue companies like Grokster and Morpheus. A few months later, Grokster agreed to shut down and pay $50 million to settle piracy complaints by the music industry. Grokster then announced plans to launch a legal service called 3G, which would require customers to pay a fee to get access to songs that could be downloaded.

In 2009, a Swedish court delivered another blow to illegal file sharing when it found four men guilty of illegally posting online a pirated copy of the film *X-Men Origins: Wolverine*. Their website—called Pirate Bay—indexed songs, movies, and TV shows. It is visited by more than 22 million people each day. The men were sentenced to one year in jail and ordered to pay $3.6 million in damages to various entertainment companies.

But will the Swedish court ruling stop the illegal downloading of music? Grokster and Morpheus software is in the hands of millions of consumers who can still engage in illegal downloading, and more file-sharing software becomes available all the time. For example, a relatively new Canadian file-sharing service called isoHunt has become one of the world's most visited websites. Overseas programmers also offer new software to consumers and they are beyond the reach of the law in North America. A survey by Forrester Research found that 80 percent of the respondents said they were not going to stop free downloading.

Music companies should never underestimate how clever consumers can be when they are highly motivated to get something for free. Consider what happened with Apple's iTunes software. There is an option on the software called "share my music," which allows users to make their library of songs available to any other computer running iTunes. The software allows people to *listen* to other peoples' collection of music, but not to *copy* it. Or so Apple thought when it developed the software. Then, some clever programmers figured out a way to get around the restriction and they started using iTunes software to facilitate illegal downloading.

It is hard to predict how this story will end.

Questions for Discussion

1. Consider the traditional channels of distribution for music albums. Which channel elements are most affected by the presence of services like KaZaA and Morpheus? Explain how those elements are affected.
2. Why is the music industry so concerned about internet distribution? Are there any opportunities for the recording industry in internet distribution?
3. Develop arguments opposing the legality of services offered by Morpheus. Then take the reverse position and develop arguments in favour of these services.
4. What types of ethical or social-responsibility issues does file sharing raise?
5. What other products, besides music albums, are the most likely candidates for distribution on the internet, now and in the future?

SCANLIFE

Part 4: Managing Marketing

Goal of the Exercise

So far, your business has an identity, you've described the factors that will affect your business, and you've examined your employees, the jobs they'll be performing, and the ways in which you can motivate them. Part 4 of the business plan project asks you to think about marketing's 4 Ps—product, price, place (distribution), and promotion—and how they apply to your business. You'll also examine how you might target your marketing toward a certain group of consumers.

Exercise Background: Part 4 of the Business Plan

In Part 1, you briefly described what your business will do. The first step in Part 4 of the plan is to more fully describe the product (good or service) you are planning to sell. Once you have a clear picture of the product, you'll need to describe how this product will stand out in the marketplace—that is, how will it differentiate itself from other products?

In Part 1, you also briefly described who your customers would be. The first step in Part 4 of the plan is to describe your ideal buyer, or target market, in more detail, listing their income level, education level, lifestyle, age, and so forth. This part of the business plan project also asks you to discuss the price of your products, as well as where the buyer can find your product.

Finally, you'll examine how your business will get the attention and interest of the buyer through its promotional mix—advertising, personal selling, sales promotions, and publicity and public relations.

This part of the business plan encourages you to be creative. Have fun! Provide as many details as you possibly can, as this reflects an understanding of your product and your buyer. Marketing is all about finding a need and filling it. Does your product fill a need in the marketplace?

Your Assignment

mybusinesslab

Step 1

Open the saved Business Plan file you have been working on.

Step 2

For the purposes of this assignment, you will answer the following questions in Part 4: Managing Marketing:

1. Describe your target market in terms of age, education level, income, and other demographic variables.

   Hint: Refer to Chapter 12 for more information on the aspects of target marketing and market segmentation that you may want to consider. Be as detailed as possible about who you think your customers will be.

2. Describe the features and benefits of your product or service.

   Hint: As you learned in Chapter 13, a product is a bundle of attributes—features and benefits. What features does your product have—what does it look like and what does it do? How will the product benefit the buyer?

3. How will you make your product stand out in the crowd?

   Hint: There are many ways to stand out in the crowd, such as having a unique product, outstanding service, or a great location. What makes your great idea special? Does it fill an unmet need in the marketplace? How will you differentiate your product to make sure that it succeeds?

4. What pricing strategy will you choose for your product, and what are the reasons for this strategy?

   Hint: Refer to Chapter 14 for more information on pricing strategies and tactics. Since your business is new, so is the product. Therefore, you probably want to choose between price skimming and penetration pricing. Which will you choose, and why?

5. Where will customers find your product or service? (That is, what issues of the distribution mix should you consider?)

   Hint: If your business does not sell its product directly to consumers, what types of retail stores will sell your product? If your product will be sold to another business, which channel of distribution will you use? Refer to Chapter 14 for more information on aspects of distribution you may want to consider.

6. How will you advertise to your target market? Why have you chosen these forms of advertisement?

Hint: Marketers use several different advertising media—specific communication devices for carrying a seller's message to potential customers—each having advantages and drawbacks. Refer to Chapter 13 for a discussion of the types of advertising media you may wish to consider here.

7. What other methods of promotion will you use, and why?

Hint: There's more to promotion than simple advertising. Other methods include personal selling, sales promotions, and publicity and public relations. Refer to the discussion of promotion in Chapter 13 for ideas on how to promote your product that go beyond just advertising.

Note: Once you have answered the questions, save your Word document. You'll be answering additional questions in later chapters.

VIDEO CASE IV-1

CBC

The "Feel-Better" Bracelet

Q-Ray advertisements say that its "Serious Performance Bracelet" is designed to help people play, work, and live better." The advertisements say that the $200 bracelet—which makes people feel better by balancing natural positive and negative forces—is ionized using a special secret process. Golfers claim that the bracelet reduces their pain, so *Marketplace* went looking for answers at the golf course. Sandra Post, a champion golfer, is a paid spokesperson for the bracelet. When Wendy Mesley of *Marketplace* interviews her, Post emphasizes the jewellery aspect of the Q-Ray, not its pain-relief qualities. Mesley also interviews golfers Frank and Sam. Frank tells her that the bracelet has reduced his arthritis pain, but Sam (who also wears one of the bracelets) thinks the pain relief is mostly in peoples' heads.

Advertising that a product provides pain relief is a tricky business. Even though a lot of people wear the Q-Ray for pain relief, the company cannot advertise that its product relieves pain unless there are medical studies that clearly show this. And there are no such studies. Until 2006, people in Q-Ray ads said that the bracelet had cured their pain. But now they can't say that because the U.S. Federal Trade Commission ruled that such advertising is deceptive.

Andrew Park is the man who brought the Q-Ray to North America, and now his son Charles is marketing the product in Canada. Park says that 150 000 Q-Rays have been sold in Canada at a price of $200 each. In an interview with Mesley, Park says that the company does not make pain relief claims for the product in its advertisements. But then Mesley shows a hidden camera film clip to Park where he is making a pain relief claim during the shooting of an infomercial. Park says that he believes that the product reduces pain, and that if you believe the bracelet will relieve your pain, it will. Mesley also plays a hidden camera clip showing retail salespeople telling customers that the Q-Ray reduces the pain of arthritis. Park says he can't control what retailers tell their customers.

Marketplace also asked Christopher Yip, an engineer at the University of Toronto, to test a Q-ray bracelet to determine if it was ionized. Yip found that it did not hold an electrical charge and was therefore not ionized. When Park is confronted with this evidence, he says that he never claimed that the bracelet would hold an electrical charge. Rather, he simply says that the bracelet is ionized using an "exclusive ionization process." Hidden camera film of retail salespeople shows them explaining ionization by saying things like "it picks up the iron in your blood and speeds up circulation" and "negative ions are collected in the ends of the bracelet." Retail salespeople say they aren't sure what ionization is.

Mesley also shows Park a hidden camera interview with the Q-Ray sales coordinator. The coordinator mentions several types of pain that Q-Ray bracelet relieves—migraine, carpal tunnel, and arthritis. Park says that he will have to meet with the sales coordinator and inform her that she cannot make these pain-relief claims.

Video Resource: "Buyer Belief," *Marketplace* (November 14, 2007).

Questions for Discussion

1. Is the Q-Ray bracelet a convenience, shopping, or specialty good? Explain your reasoning. Also analyze the "value package" provided by the Q-Ray bracelet.
2. Briefly describe the variables that are typically used to segment markets and what each involves. Which variable is Q-Ray using?
3. Consider the following statement: *"People suffering from chronic pain need hope, and a product like Q-Ray provides hope. Even though it might be difficult to prove that the bracelet relieves pain, if people believe the product will reduce their pain that might become a self-fulfilling prophecy and the person's pain will be relieved. So, companies like Q-Ray should not be prohibited from advertising that their product has pain-relieving qualities."* Do you agree or disagree with this statement? Defend your answer.
4. Which of the 4 Ps is most important in the marketing of the Q-Ray bracelet? Explain your reasoning.

CBC

Shall We Dance?

Baby boomers (people born between 1947 and 1966) now make up one-third of Canada's population, and they control 55 percent of the disposable income in Canada. The needs and wants of this demographic group have created many new business opportunities in the health, leisure, and security industries. Many entrepreneurs are now chasing "boomer bucks."

Consider Beverly and Robert Tang, who are former North American dance champions. They want to capitalize on boomers' love of dancing. Their timing is good, since television has boosted interest in ballroom dancing with immensely popular shows like *Dancing with the Stars*. The Tangs want to cash in on the dance craze by targeting baby boomers (mostly women), because boomers have the money to spend on dancing lessons. And they want their company—Dancescape—to be a world-class dance lifestyle company that is the basis for a global dance brand.

It's Thursday night at a Ukrainian church hall, and baby boomers are dancing under the instruction of the Tangs. The Tangs spend a lot of time giving instruction, but they have also invested $20 000 to make a learn-to-dance video. It's already selling in the U.S. and they're working on Canadian and U.K. distribution. A key element of their plan is three websites where dancers can shop, socialize, and download dance videos. The Tangs hope their website will be the new "Facebook for dancers." But to build their brand and build their business, they need $1.4 million. They manage to get an audience with Tim Draper, a venture capitalist who has made millions on the internet. He likes karaoke, and he invested in Hotmail, so they know he's open to new ideas. To prepare for their meeting with him, they hire a brand coach to help them prepare their sales pitch. Unfortunately, after working with them, the coach thinks the Tangs aren't ready to meet with Draper. The coach thinks they are spending so much time running the business that they don't have time to refine and polish their sales pitch.

On pitch day, Tim Draper gets an impromptu lesson from Beverly and also listens to Robert's sales pitch. The sales pitch gets off to a rocky start when Robert calls Tim "Steve" on two occasions. That is very embarrassing. Draper listens carefully to Robert's sales pitch, but makes no commitment. But he doesn't give them a flat "no" either. The Tangs are still hopeful Draper may come through.

Marketplace talks with two experts about the prospects of success for Dancescape. Lina Ko works for National Public Relations, a company that does surveys with boomers. She also has a blog that provides insights into Canadian consumers' needs and wants. The other expert is Robert Herjavec, who owns a computer company. He says it's good that the Tangs are doing something they love, because "you should love what you do and you'll never work a day in your life." But, he observes, that doesn't automatically mean that you'll have a viable business doing what you love. He notes that the Tangs are promoting dancing to the boomer generation, but they are trying to do it using the technology of the younger generations. He is not convinced that boomers are technologically savvy enough for this to work. He also has concerns because he wants to see young people dancing, not boomer-age people. He thinks the Tangs need a viral marketing idea that will have broad appeal. Selling their videos through niche stores limits their market and is inconsistent with their goal of being a global brand.

Ko disagrees with Herjavec, and says that the perception that boomers are not technically savvy is incorrect. She also notes that the dancing concept is good because boomers are interested in exercising and dancing is good exercise. Dancing also makes people feel younger than they really are. The targeting of women is also a good idea because women have a big influence on family purchase decisions. But Ko thinks that the Tangs should revamp their language. Boomers don't want to hear the word "retirement." Rather they want to reinvent themselves. Ko says too that the Tangs need to further segment the boomer market because boomers in their forties are quite different from boomers in their sixties.

Video resource: "Boomer Bonanza," *Fortune Hunters* (March 8, 2008).

Questions for Discussion

1. What is the difference between goods, services, and ideas? Are the Tangs marketing a good, a service, or an idea? Explain your reasoning.
2. Which of the 4 Ps of marketing do you think is most important in the case of dancing lessons? Explain your reasoning.
3. Which variables do marketers generally use to identify market segments? Which variables are being used by the Tangs? Be specific.