Distribution and Channels

For many companies, making the product doesn't cost as much as bringing it to the market! Farmers know this well when they see how small a percentage of the final retail price they receive for their crops. Marketing in many cases now averages 50 percent of total company costs. Producers would like to eliminate the middleman, whom they see as charging too much. But while you can eliminate the middleman, you cannot eliminate the functions he performs. You and/or the customer would have to perform the same functions and probably wouldn't do them as well.

How can a company bring its new products into the market? Every company has to figure out a *go-to-market strategy*. In simpler times, the company would hire salespeople to sell to distributors, wholesalers, retailers, or directly to final users. Today the number of go-to-market alternatives has exploded:

Field sales reps	Intranet
Strategic allies	Extranet
Business partners	Web sites
Master or local distributors	E-mail
Integrators	Business-to-business exchanges
Value-added resellers	Auctions

Manufacturers' agents	Fax machines
Brokers	Direct mail
Franchises	Newspapers
Telemarketers	Television
Telesales agents	

No wonder Peter Drucker said: **"The greatest change will be in distribution channels, not in new methods of production or consumption."** Choosing the right channels, convincing them to carry your merchandise, and getting them to work as partners is a major challenge. Too many companies see themselves as selling to distributors, instead of selling *through* them.

How many marketing channels should a company use to distribute its products and services? The higher the number of channels, the greater the company's *market coverage* and rate of growth of its sales. This principle is well illustrated by Starbucks Coffee Company. Starbucks started with only one channel, namely company-owned stores that were staffed carefully and operated profitably. Later Starbucks franchised operations in other venues: airports, bookstores, and college campuses. The company recently signed a licensing agreement with Albertson's food chain to open coffee bars in its supermarkets. Not only is Starbucks coffee served in these venues, but other Starbucks products are sold along with coffee. A comedian quipped about Starbucks: "I don't know how fast they are growing but they just opened one in my living room." Adding more channels creates rapid growth.

But at least two problems can arise in adding new market channels. First, product or service quality may suffer because the company gained market coverage at the expense of *market control*. Does Starbucks coffee served on a United Air Lines flight taste as good as a cup made and served in a Starbucks store? Do all vendors remember to dispose of Starbucks coffee if it isn't sold within two hours? Secondly, the company may encounter growing problems of *channel* *conflict*. Some Starbucks outlets may complain that the company franchised nearby outlets to also sell Starbucks coffee, thus hurting their sales. Or that some outlets are charging less for Starbucks coffee than other outlets. In both cases, Starbucks would have gained increased market coverage but lost some market control.

The alternative is to stick to one channel and develop it with very tight controls. For example, the Rolex Watch Company could easily place its famous watches in many more outlets. Instead it restricts its coverage to only high-end jewelers who are spaced geographically and who agree to carry a certain level of inventory, use certain display patterns, and place specific levels of annual local advertising. Rolex thus has achieved high market control and does not face poor service problems or channel conflict problems. But its market growth is slower.

Whatever the number of market channels a company uses, it must integrate them to achieve an efficient supply system. Most companies rely on a high percentage of their business results coming from their channel partners. They need to systematize *partner relationship management (PRM)* through adopting PRM software. The software can improve the information flow and reduce the cost of communication, ordering, transactions, and payment.

Manufacturers who use distributors to reach retailers give up some control of the retailers and the final customers. Yet if the manufacturer sold direct to either the retailers or the final customers, it would have to carry on the same channel functions of selling, financing, information gathering, servicing, risk taking, transportation, and storage. If distributors can do this better and add value, then the distributor channel is justified. The key point is that all the channel functions must be performed and allocated efficiently among the channel partners.

A company operating multiple channels must operate them with similar policies. A bookstore chain such as Borders must have its brick-and-mortar stores be prepared to also accept returned books purchased from Borders online. Nor can Borders charge lower prices online without hurting its store sales.

Here are two excellent examples of integrated channels:

- Charles Schwab, the financial powerhouse, delivers an excellent branded experience to its customers whether reached online, over the telephone, or in its walk-in branches.
- Hewlett-Packard (HP) has an excellent web site where customers can find information about any HP product or service. Customers can place an order online or by phoning Hewlett-Packard. They will receive postsale support by contacting HP and being directed to the nearest local business partner.

Another option is to set up special channels for favored customers. Many banks provide private banking channels to customers with large deposits. Dell provides a separate extranet for each high-value business customer. Schwab's premier customers are assigned to a dedicated account team that can always be reached through a toll-free phone number.

Your company must not only develop and operate efficient marketing channels but be prepared to add new ones and drop failing ones. Distribution channels are dynamic. They can create a competitive advantage when used right, but become a competitive liability when used poorly.