

## Web Assignments

1. **Product classification.** Visit the website of Kraft Foods Group and click on the “products” link to see the vast variety of items the company produces. Review chapter content about product classification and categorize the company’s products.

[www.kraftrecipes.com/home.aspx](http://www.kraftrecipes.com/home.aspx)

2. **Fair Packaging and Labeling Act.** You may not think about what is in your favorite candy bar or bag of chips, but the Fair Packaging and Labeling Act enacted more than 35 years ago regulates how “consumer commodities” are labeled, including ingredients and name and place of the product’s manufacturer, packer, or distributor. Compare a product’s label to the requirements listed on the government website and discuss some of the regulations used to prevent consumer deception. What are some newer labeling requirements under review by the Federal Trade Commission?

[www.ftc.gov/enforcement/rules/rulemaking-regulatory-reform-proceedings/fair-packaging-labeling-act](http://www.ftc.gov/enforcement/rules/rulemaking-regulatory-reform-proceedings/fair-packaging-labeling-act)

3. **Interbrand and the World’s Best Global Brands.** Go to the Interbrand website and research the “Best Global Brands” for the most recent year. Choose three of your favorite brands and evaluate their ranking over the last three years. Discuss and review how the brands were chosen for the list by clicking on the “Methodology and Applications” link.

[www.interbrand.com/en/](http://www.interbrand.com/en/)

Note: Internet web addresses change frequently. If you don’t find the exact sites listed, you may need to access the organization’s home page and search from there or use a search engine such as Google or Bing.

## “Chucks” Brand Appeal from Court to Street

### CASE 12.1

Boston-based Converse is one of the most iconic brands in existence today. The plain canvas sneaker, called “Chucks” for short, has remained unchanged for more than 100 years. The shoe is named after a legendary Converse salesman, Chuck Taylor, who went from town to town running basketball clinics and encouraging players to wear the brand, which became a staple among pro basketball players.

In today’s race for innovation among shoemakers to produce lighter, stronger, warmer, and even cooler products, Converse has held its own. In fact, its most recent quarterly sales increase was a healthy 16 percent. However, the brand’s growth has not always been fast. In the 1970s, the brand lost out to rivals like Adidas and Pro-Keds and fell into a further slump in the 1980s when Nike and Michael Jordan teamed up to dominate the market with its legendary Air Jordan shoes. In bankruptcy by 2001, Converse was rescued by Nike two years later for a purchase price of \$305 million and remains the only brand in Nike’s lineup where the Nike name or swoosh is nowhere to be found.

What makes the shoe particularly unique is its simple retro look and feel. The company has maintained a countercultural appeal by dropping its all-American image of an on-court shoe in favor of attracting a newer, Millennial audience. Advertising images include rebellious icons of yesteryear, like James Dean and Janis Joplin.

The company’s chief marketing officer says the brand’s universal appeal explains why the company can sell so many varieties to its culturally diverse audience. Nike’s CEO says Converse is a brand that has been bringing energy and style to consumers for many years, and it’s all because of one steadfast salesman, Chuck Taylor, who had a hand in creating a global brand.

### Questions for Critical Thinking

1. What has Nike’s branding strategy been with Converse? Why do you think Nike has chosen to hide any of its own branding on the Converse product?
2. What is it about the Converse brand that has allowed it to maintain its strong staying power in a highly competitive shoe market? Where is Converse in its product life cycle?

**Sources:** Company website, [www.converse.com](http://www.converse.com), accessed March 12, 2014; Laura Lorenzetti, “How Converse Went from Bankruptcy to a \$1.4 Billion Business,” *Quartz*, accessed March 12, 2014, <http://qz.com>; “Converse to Unveil Largest Inline Retail Store in San Francisco,” *Business Wire*, accessed March 12, 2014, [www.businesswire.com](http://www.businesswire.com); Stephanie Kang, “Nike Takes Chuck Taylors from Antifashion to Fashionista,” *The Wall Street Journal*, accessed March 12, 2014, <http://online.wsj.com>; Leslie Wayne, “For \$305 Million, Nike Buys Converse,” *The New York Times*, accessed March 12, 2014, [www.nytimes.com](http://www.nytimes.com).

# Chapter 12

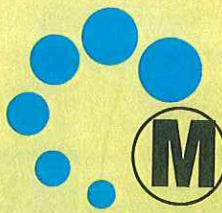
## Learning Objectives

- 1 Explain product strategy and how to classify goods and services.
- 2 Briefly describe the four stages of the product life cycle.
- 3 Discuss product identification.
- 4 Outline the major components of an effective distribution strategy.
- 5 Explain the concept of wholesaling.
- 6 Describe how to develop a competitive retail strategy.
- 7 Identify distribution channel decisions and logistics.

## Product and Distribution Strategies

© Patrick Heagney/iStockphoto





# Mattel Takes Control of Its Brands

**A**s technology pushes more consumers to mobile and Internet entertainment platforms, Mattel has taken a larger role in managing its toy brands featured in movies, TV, and other media. The California-based company created Playground Productions, an in-house studio that will produce original films, TV shows, web series, live events, and games. According to management, the goal of Playground is to create and develop entertainment on multiple platforms that will influence consumers to shop the toy aisle and provide additional revenue streams for Mattel.

Prior to creating Playground, Mattel focused more on its core toy-making and distribution business, letting others take the lead on managing the media outlets using its brands. While Mattel was concentrating on toys, competitor Hasbro parlayed its franchise Transformers into \$2.6 billion in robot-to-car shifting toys and movie tickets. Disney, no stranger to toy and movie combinations,

launched its successful Cars toy and movie products. And Marvel has teamed up with Paramount to produce Sponge Bob Square Pants and Avengers movie-toy combinations.

Mattel has several projects already in production through its Playground division, including "Team Hot Wheels: The Origin of Awesome," an animated feature followed by a live-action Hot Wheels direct-to-video movie. Character Max Steel is set to get a feature movie as well as a new line of action figures. He-Man is also up for a new movie. And a new feature is in the works for a Mattel doll line based on Monster High, Mattel's successful gothic-themed brand geared to teenagers, which accounts for more than \$1 billion annually in revenues. Taking control of its brands will help Mattel not only manage its business but also extend its storytelling expertise across multiple entertainment platforms.<sup>1</sup>

## Overview

In this chapter we examine ways in which organizations design and implement marketing strategies that address customers' needs and wants. Two of the most powerful such tools are strategies that relate to products, which include both goods and services, and those that relate to the distribution of those products.

As the story of Mattel illustrates, successful organizations stay ahead of changes in their business environment and anticipate their customers' needs. Expanding its business beyond toys by integrating product and distribution strategies has allowed Mattel to remain competitive.

This chapter focuses on the first two elements of the marketing mix: product and distribution. Our discussion of product strategy begins by describing the classifications of goods and services, customer service, product lines and the product mix, and the product life cycle. Companies often shape their marketing strategies differently when they are

introducing a new product, when the product has established itself in the marketplace, and when it is declining in popularity. We also discuss product identification through brand name and distinctive packaging, and the ways in which companies foster loyalty to their brands to keep customers coming back for more.

Distribution, the second marketing mix variable discussed, focuses on moving goods and services from producer to wholesaler to retailer to buyers. Managing the distribution process includes making decisions such as what kind of wholesaler to use and where to offer products for sale. Retailers can range from specialty stores to factory outlets and everything in between, and they must choose appropriate customer service, pricing, and location strategies in order to succeed. The chapter concludes with a look at logistics, the process of coordinating the flow of information, goods, and services among suppliers and on to consumers.

[1]

## Product Strategy

**Product** bundle of physical, service, and symbolic characteristics designed to satisfy consumer wants.

Most people respond to the question “What is a product?” by listing its physical features. By contrast, marketers take a broader view. To them, a **product** is a bundle of physical, service, and symbolic characteristics designed to satisfy consumer wants. The chief executive officer of a major tool manufacturer once startled his stockholders with this statement: “Last year our customers bought over 1 million quarter-inch drill bits, and none of them wanted to buy the product. They all wanted quarter-inch holes.” Product strategy involves considerably more than just producing a good or service; instead, it focuses on benefits. The marketing conception of a product includes decisions about package design, brand name, trademarks, warranties, product image, new-product development, and customer service. Think, for instance, about your favorite beverage. Do you like it for its taste alone? Or do other attributes, such as clever ads, attractive packaging, ease of purchase from vending machines and other convenient locations, and overall image, also attract you? These other attributes may influence your choice more than you realize.

### Classifying Goods and Services

Marketers have found it useful to classify goods and services as either B2C or B2B, depending on whether the purchasers of the particular item are consumers or businesses. These classifications can be subdivided further, and each type requires a different competitive strategy.

**Classifying Consumer Goods and Services** The classification typically used for ultimate consumers who purchase products for their own use and enjoyment and not for resale is based on consumer buying habits. *Convenience products* are items the consumer seeks to purchase frequently, immediately, and with little effort. Items stocked in gas-station markets, vending machines, and local newsstands are usually convenience products—for example, newspapers, snacks, candy, coffee, and bread.

*Shopping products* are those typically purchased only after the buyer has compared competing products in competing stores. A person intent on buying a new sofa or dining room table may visit many stores, examine perhaps dozens of pieces of furniture, and spend days making the final decision. *Specialty products*, the third category of consumer products, are those that a purchaser is willing to make a special effort to obtain. The purchaser is already familiar with the item and considers it to have no reasonable substitute. The nearest Lexus dealer may be 75 miles away, but if you have decided you want one, you will make the trip.

Note that a shopping product for one person may be a convenience item for someone else. Each item’s product classification is based on buying patterns of the majority of people who purchase it.

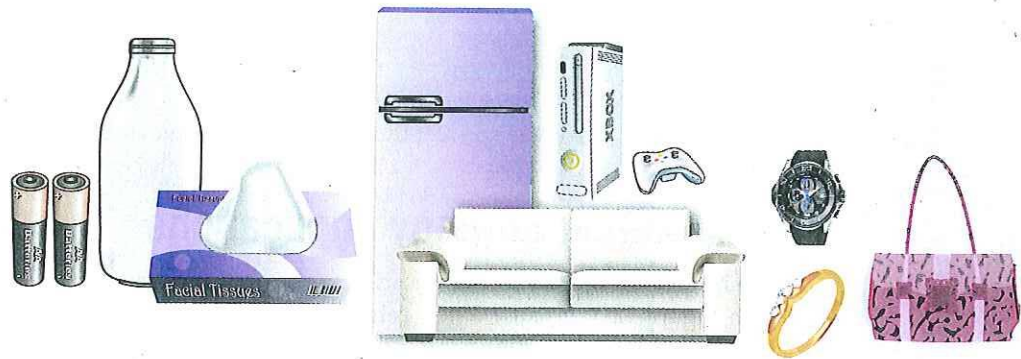
The interrelationship of the marketing mix factors is shown in Figure 12.1. By knowing the appropriate classification for a specific product, the marketing decision maker knows quite a bit about how the other mix variables will adapt to create a profitable, customer-driven marketing strategy.

**Classifying Business Goods** *Business products* are goods and services such as payroll services and huge multifunction copying machines used in operating an organization; they also include machinery, tools, raw materials, components, and buildings used to produce other items for resale. While consumer products are classified



Buying a *specialty product* takes extra effort. The Fiat 500 is sold in a limited number of places.

**FIGURE 12.1** Marketing Impacts of Consumer Product Classification



**Marketing Strategy Factor**

- Purchase Frequency
- Store Image
- Price
- Promotion
  
- Distribution Channel
  
- Number of Retail Outlets

**Convenience Product**

- Frequent
- Unimportant
- Low
- By manufacturer
  
- Many wholesalers and retailers
  
- Many

**Shopping Product**

- Relatively infrequent
- Very important
- Relatively high
- By manufacturer and retailers
- Relatively few wholesalers and retailers
- Few

**Specialty Product**

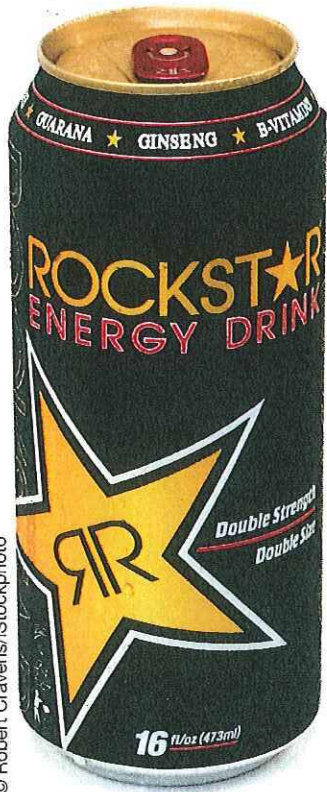
- Infrequent
- Important
- High
- By manufacturer and retailers
- Very few wholesalers and retailers
  
- Very small number; often one per market area

by buying habits, business products are classified based on how they are used and by their basic characteristics. Products that are long-lived and relatively expensive are called *capital items*. Less costly products that are consumed within a year are referred to as *expense items*.

Five basic categories of B2B products exist: installations, accessory equipment, component parts and materials, raw materials, and supplies. *Installations* are major capital items, such as new factories, heavy equipment and machinery, and custom-made equipment. Installations are expensive and often involve buyer and seller negotiations that may last for more than a year before a purchase actually is made. Purchase approval frequently involves a number of different people—production specialists, representatives from the purchasing department, and members of top management—who must agree on the final choice.

Although *accessory equipment* also includes capital items, they are usually less expensive and shorter lived than installations and involve fewer decision makers. Examples include hand tools and printers. *Component parts and materials* are finished business goods that become part of a final product, such as disk drives that are sold to computer manufacturers or batteries purchased by automakers. *Raw materials* are farm and natural products used in producing other final products. Examples include milk, wood, leather, and soybeans. *Supplies* are expense items used in a firm's daily operation that do not become part of the final product. Often referred to as MRO (maintenance, repair, and operating supplies), they include paper clips, light bulbs, and copy paper.

**Classifying Services** Services can be classified as either B2C or B2B. Child and elder care centers and auto detail shops provide services for consumers, while the Pinkerton security patrol at a local factory and Kelly Services' temporary office workers are examples of business services. In some cases, a service can accommodate both consumer and business markets. For



© Robert Cravens/istockphoto

PepsiCo product mix includes Rockstar Energy drinks, which are distributed in the United States and Canada by various Pepsi Bottling enterprises.

**product line** group of related products marked by physical similarities or intended for a similar market.

**product mix** the assortment of product lines and individual goods and services that a firm offers to consumers and business users.

## Assessment Check

1. How do consumer products differ from business products?
2. Differentiate among convenience, shopping, and specialty products.

**product life cycle** four basic stages—introduction, growth, maturity, and decline—through which a successful product progresses.

example, when ServiceMaster cleans the upholstery in a home, it is a B2C service, but when it provides disaster restoration services at a manufacturing plant, it is a B2B service.

Like tangible goods, services can also be convenience, shopping, or specialty products depending on the buying patterns of customers. However, they are distinguished from goods in several ways. First, services, unlike goods, are intangible. In addition, they are perishable because firms cannot stockpile them in inventory. They are also difficult to standardize, because they must meet individual customers' needs. Finally, from a buyer's perspective, the service provider is the service; the two are inseparable in the buyer's mind.

## Marketing Strategy Implications

The consumer product classification system is a useful tool in marketing strategy. As described in Figure 12.1, because a new refrigerator is classified as a shopping good, its marketers have a better idea of its promotion, pricing, and distribution needs.

Each group of business products, however, requires a different marketing strategy. Because most installations and many component parts are frequently marketed directly from manufacturer to business buyer, the promotional emphasis is on personal selling rather than on advertising. By contrast, marketers of supplies and accessory equipment rely more on advertising, because their products are often sold through an intermediary, such as a wholesaler. Producers of installations and component parts may involve their customers in new-product development, especially when the business product is custom made. Finally, firms selling supplies and accessory equipment place greater emphasis on competitive pricing strategies than do other B2B marketers, who tend to concentrate more on product quality and customer service.

## Product Lines and Product Mix

Few firms operate with a single product. If their initial entry is successful, they tend to increase their profit and growth chances by adding new offerings. The iPhone and iPad, with their touchscreen technology and apps, have expanded Apple's product line. Although most mainstream knowledge workers will probably continue to use conventional computers for some time, touchscreen technology is fast becoming a standard feature in consumer electronics.<sup>2</sup>

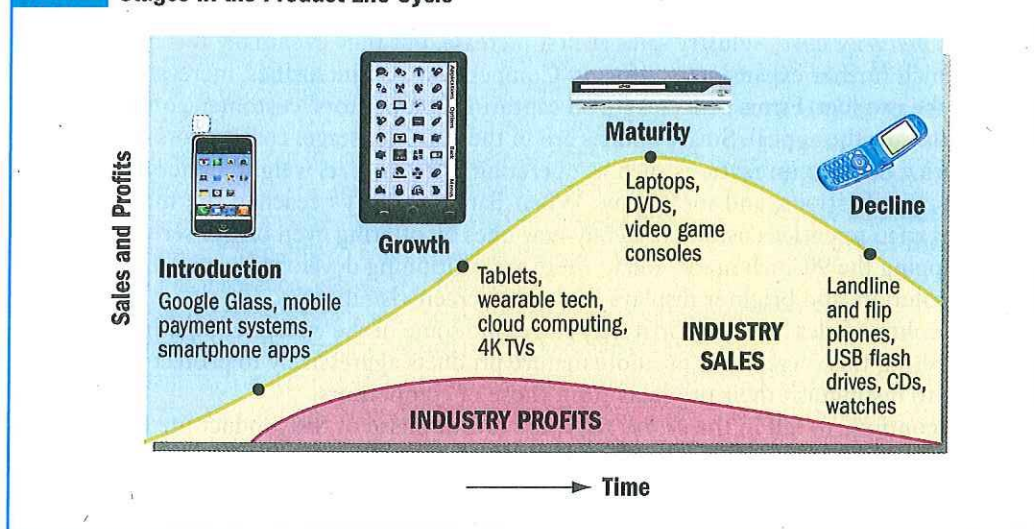
A company's **product line** is a group of related products marked by physical similarities or intended for a similar market. A **product mix** is the assortment of product lines and individual goods and services that a firm offers to consumers and business users. The Coca-Cola Company and PepsiCo both have product lines that include old standards—Coke Classic and Diet Coke, Pepsi and Diet Pepsi. But recently, Rockstar energy drink switched distributors from The Coca-Cola Company to PepsiCo, as a result of The Coca-Cola Company's distribution agreement with competitor Monster energy drink. As part of a multiyear agreement, Rockstar energy drinks are distributed in the United States and Canada by Pepsi Bottling Group, PepsiAmericas, and Pepsi Bottling Ventures, as well as other independent Pepsi bottlers.<sup>3</sup>

Marketers must assess their product mix continually to ensure company growth, to satisfy changing consumer needs and wants, and to adjust to competitors' offerings. To remain competitive, marketers look for gaps in their product lines and fill them with new offerings or modified versions of existing ones. A helpful tool that is frequently used in making product decisions is the product life cycle.

## Product Life Cycle

Once a product is on the market, it usually goes through four stages known as the **product life cycle**: introduction, growth, maturity, and decline. As Figure 12.2 shows, industry sales and profits vary depending on the life cycle stage of an item.

## 12.2 Stages in the Product Life Cycle



Product life cycles are not set in stone; not all products follow this pattern precisely, and different products may spend different periods of time in each stage. The concept, however, helps the marketing planner anticipate developments throughout the various stages of a product's life. Profits assume a predictable pattern through the stages, and promotional emphasis shifts from dispensing product information in the early stages to heavy brand promotion in the later ones.

## Stages of the Product Life Cycle

In the *introduction stage*, the firm tries to promote demand for its new offering; inform the market about it; give free samples to entice consumers to make a trial purchase; and explain its features, uses, and benefits. Sometimes companies partner at this stage to promote new products: California-based Fuhu is the maker of the Nabi, a first-of-its-kind Android tablet for children. The company sees the Nabi as a distribution channel for content geared to children and has signed agreements with Nickelodeon and Disney. With retailers Walmart, Target, and Best Buy on board to sell the tablet, the company is developing an audio dock attachment that converts the Nabi into a karaoke machine. Fuhu has announced it will produce an original animated TV series on the BabyFirst cable network that will feature a character modeled after its Nabi tablet.<sup>4</sup>

New-product development costs and extensive introductory promotional campaigns to acquaint prospective buyers with the merits of the innovation, though essential to later success, are expensive and commonly lead to losses in the introductory stage. Some firms are seeking to lower these costs through ultra-low-cost product development, which involves meeting customer needs with the lowest-cost innovations possible, designing from scratch with a stripped-down budget, and the simplest engineering possible. But all these expenditures are necessary if the firm is to profit later.

During the *growth stage*, sales climb quickly as new customers join early users who now are repurchasing the item. Word-of-mouth referrals and continued advertising and other special promotions by the firm induce others to make trial purchases. At this point, the company begins to earn profits on the new product. This success encourages competitors to enter the field with similar offerings, and price competition develops. After its initial success with the Kindle, Amazon faced competition from Barnes & Noble's Nook. Amazon rushed to launch its Kindle for the iPad app, then Barnes & Noble countered with its NOOK Color. Since

then, the tablet market has become increasingly crowded, with the iPad still dominating the sector. Recent statistics reveal Apple with a 37 percent share of the tablet market, Samsung with 18 percent, and Amazon with 3 percent.<sup>5</sup>

In the *maturity stage*, industry sales at first increase, but they eventually reach a saturation level at which further expansion is difficult. Competition also intensifies, increasing the availability of the product. Firms concentrate on capturing competitors' customers, often dropping prices to further the appeal. Smart phones are in the maturity stage: competitors compete not only on price but also on features such as operating systems, size, weight, battery life, camera and video specifications, and messaging. When flat-screen TVs reached the maturity stage, companies tried to entice customers to buy new ones by offering even bigger screen sizes than before, topping the 90-inch mark. Today, there are continuing developments in color accuracy, higher resolution, and brighter displays for better screen visibility.<sup>6</sup>

Sales volume fades late in the maturity stage, and some of the weaker competitors leave the market. During this stage, firms promote mature products aggressively to protect their market share and to distinguish their products from those of competitors.

Sales continue to fall in the *decline stage*, the fourth phase of the product life cycle. Profits decline and may become losses as further price-cutting occurs in the reduced overall market for the item. Competitors gradually exit, making some profits possible for the remaining firms in the shrinking market. The decline stage usually is caused by a product innovation or a shift in consumer preferences. Sometimes technology change can accelerate the decline stage for a product. For example, at one time more than 90 percent of U.S. homes contained at least one DVD player. Once touted as the ultimate in DVD technology, high-definition DVDs have now been superseded by Blu-ray technology and online streaming sites. Online sites like Amazon, Netflix, and Hulu, where consumers can watch movies, television shows, or other original programming, have become another major competitor for entertainment as the link between technology and distribution has become faster and more reliable.<sup>7</sup>

## Marketing Strategy Implications of the Product Life Cycle

Like the product classification system, the product life cycle is a useful concept for designing a marketing strategy that will be flexible enough to accommodate changing marketplace characteristics. These competitive moves may involve developing new products, lowering prices, increasing distribution coverage, creating new promotional campaigns, or any combination of these approaches. In general, the marketer's objective is to extend the product life cycle as long as the item is profitable. Some products can be highly profitable during the later stages of their life cycle, because all the initial development costs have already been recovered. Ava Anderson Non-Toxic, in the growth stage of the product life cycle, is a company that sells directly to consumers. See the "Going Green" feature for more details.

A commonly used strategy for extending the life cycle is to increase customers' frequency of use. Walmart and Target offer grocery sections in many of their stores to increase the frequency of shopper visits. Another strategy is to add new users. To gain new customers, fast-food companies have added healthy meal choices with more fruits and vegetables and less salt, sugar, and fat to their menus. Burger King recently rolled out "Satisfries," a healthier version of its traditional fries with 40 percent less fat and 30 percent fewer calories. The company also offers fat-free milk, apple juice, and apple fries—fresh cut apples in the shape of french fries.<sup>8</sup>

A third product life cycle extension strategy is to find new uses for products. 3M's Post-it Notes have made successful use of this strategy. One recent blog posting lists 20 innovative ways students can use them, including wrapping the sticky edge around a cable to identify it and using the sticky edge to clean between the keys of a computer keyboard.<sup>9</sup> Finally, a firm may decide to change package sizes, labels, and product designs. Mattel has done this several times with its iconic Barbie doll.

## Ava Anderson Non-Toxic Excels via Direct Distribution

Ava Anderson's cosmetics company, Ava Anderson Non-Toxic, grew from a teenager's alarm at discovering that most personal care products contain harmful ingredients, including carcinogens and endocrine disrupters. Then just 14, Anderson set out to find manufacturers who could develop and manufacture cosmetics to her own green standards. Only a few years later, the privately held company she founded with her mother was a finalist in *Entrepreneur* magazine's "Entrepreneur of the Year" competition, selected for its innovation, impact, and community.

The firm produces cosmetics, sunscreen, body, and home care products without harmful chemicals. The products are sold by independent part- and full-time consultants who host parties and seminars and schedule individual customer appointments, providing direct distribution. The company offers ongoing training and rewards consultants with a percentage of their total sales, plus a percentage of the sales of any new consultants they recruit.

Anderson says she is thrilled to watch the company's consultants be successful, really enjoy their jobs, and share her passion to provide safer alternatives to consumers.

### Questions for Critical Thinking

1. Is direct distribution appropriate for a product like Non-Toxic's cosmetics? Why or why not?
2. The company offers consultants their own personal online office and website. How would a consultant make the best use of these tools?

**Sources:** Company website, [www.avaandersonnontoxic.com](http://www.avaandersonnontoxic.com), accessed March 11, 2014; Samantha Escobar, "Meet Ava Anderson, the Teen CEO of an All-Natural Cosmetics Company," *Bliss Tree*, accessed March 11, 2014, [www.blisstree.com](http://www.blisstree.com); Sara Bagwell, "Ava Anderson Non-Toxic Is a Finalist in *Entrepreneur* 2011 Contest," *Bristol-Warren Patch*, accessed February 28, 2014, <http://bristol-warrenpatch.com>; Sarah Cook, "It's Not Kids Business: Interview with Ava Anderson, Founder of Ava Anderson Non-Toxic," *Raising CEO Kids*, accessed February 28, 2014, [www.raisingceokids.com](http://www.raisingceokids.com).

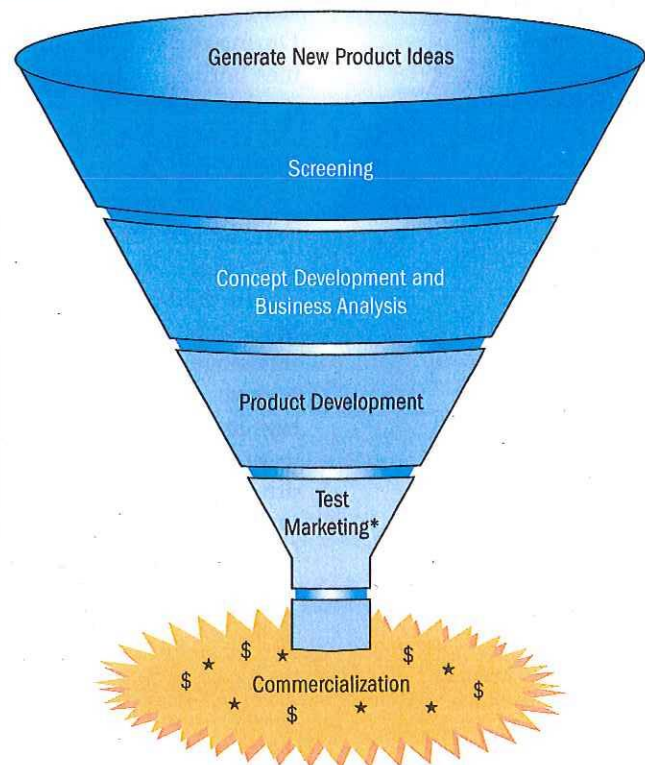
## Stages in New-Product Development

New-product development is costly, time consuming, and risky, because only about one-third of new products become success stories. Products can fail for many reasons. Some are not properly developed and tested, some are poorly packaged, and others lack adequate promotional support or distribution or do not satisfy a consumer need or want. Even successful products eventually reach the end of the decline stage and must be replaced with new-product offerings.

Most of today's newly developed items are aimed at satisfying specific consumer demands. New-product development is becoming increasingly efficient and cost-effective because marketers use a systematic approach in developing new products. As Figure 12.3 shows, the new-product development process has six stages. Each stage requires a "go/no-go" decision by management before moving on to subsequent stages. Because items that go through each development stage only to be rejected at one of the final stages involve significant investments in both time and money, the sooner decision makers can identify a marginal product and drop it from further consideration, the less time and money will be wasted.

The starting point in the new-product development process is generating ideas for new offerings. Ideas come from many sources, including customer suggestions, suppliers, employees, research scientists, marketing research, inventors outside the firm, and competitive products. The most successful ideas are directly related to satisfying customer needs. California-based Future Motion has created Onewheel, a self-balancing, single-wheel skateboard with speeds of up to 12 miles per hour. Using self-balancing technology, leaning

FIGURE 12.3 Process for Developing New Goods and Services



\* Some firms skip this step and move directly from product development to commercialization.

forward speeds up the skateboard and leaning back slows it down. Features include a rechargeable lithium battery and iPhone and Android apps to monitor speed, acceleration, and range.<sup>10</sup>

In the second stage, screening eliminates ideas that do not mesh with overall company objectives or that cannot be developed given the company's resources. Some firms hold open discussions of new-product ideas with specialists who work in different functional areas in the organization.

During the concept development and business analysis phase, further screening occurs. The analysis involves assessing the new product's potential sales, profits, growth rate, and competitive strengths and determining whether it fits with the company's product, distribution, and promotional resources. *Concept testing*—marketing research designed to solicit initial consumer reaction to new-product ideas—may be used at this stage. For example, potential consumers might be asked about proposed brand names and other methods of product identification. *Focus groups* are sessions in which consumers meet with marketers to discuss what they like or dislike about current products and perhaps test or sample a new offering to provide some immediate feedback.

Next, an actual product is developed, subjected to a series of tests, and revised. Functioning prototypes or detailed descriptions of the product may be created. These designs are the joint responsibility of the firm's development staff and its marketers, who provide feedback on consumer reactions to the proposed product design, color, and other physical features. Sometimes prototypes do not meet the stated requirements. In search of a quick-drying camouflage uniform for tropical environments, the U.S. Marines are back to the drawing board after testing four prototypes at the jungle warfare training center in Okinawa, Japan. Although the uniforms provide ample protection and durability, they need to dry in 20 minutes rather than the usual 40 minutes.<sup>11</sup>

**Test marketing** introduces a new product supported by a complete marketing campaign to a selected city or TV coverage area. Marketers look for a location with a manageable size, where residents match their target market's demographic profile, to test their product. During the test marketing stage, the item is sold in a limited area while the company examines both consumer responses to the new offering and the marketing effort used to support it. Test market results can help managers determine the product's likely performance in a full-scale introduction. Some firms skip test marketing, however, because of concerns that the test could reveal their strategies to the competition. Also, the expense of doing limited production runs of complex products such as a new auto or refrigerator is sometimes so high that the test marketing stage is skipped and the development process moves directly to the next stage.

In the final stage, commercialization, the product is made available in the marketplace. Sometimes this stage is referred to as a product launch. Considerable planning goes into this stage, because the firm's distribution, promotion, and pricing strategies must all be geared to support the new product offering. Mercedes Benz recently announced plans to launch 30 new models over the next several years as part of an ongoing effort to revitalize its product lines. The S600 is the first Mercedes to have a jet fighter-inspired display for the driver that includes navigation instructions, vehicle speed, and cruise control settings. The car will also have a touchpad controller for the onboard "infotainment" system, which will function like a smart phone or tablet. Back seats will recline, and there is even a refrigerator in the trunk.<sup>12</sup>

The need for a steady stream of new products to offer the firm's customers, the chances of product failure, and the tens of millions of dollars needed to complete a successful new-product launch make new-product development a vital process for 21st-century firms. However, as Table 12.1 illustrates, success is not guaranteed until the new-product offering achieves customer acceptance. Laser virtual keyboards, which project a keyboard on any flat surface, were introduced a few years ago. Reports say not only is the keyboard inaccurate, but it also feels unnatural. With a keyboard on your smart phone or tablet, along with many different accessory options available, critics say that lugging around a device that projects a virtual keyboard is no longer practical.<sup>13</sup>

**Test marketing** introduces a new product supported by a complete marketing campaign to a selected city or TV coverage area.

## 12.1 Examples of Products That Failed

PRODUCT	WHY IT FLOPPED
New Coke	Facing stiff competition from other soft drink producers in the mid-1980s, executives at The Coca-Cola Company stopped production on the original Coke and introduced a new, sweeter formula of the soft drink. Consumers were outraged and flooded the company with complaints. Three months later, the company went back to the original Coke formula.
Sony Betamax	Sony's Betamax video recorder was introduced in the mid-1970s. Soon after, a rival company introduced VHS technology, which became the standard for video recordings, and several other competitors introduced VHS machines quickly. Because Sony chose not to license its Betamax technology, and the two technologies were not compatible, consumers needed to choose between Betamax and VHS. As a result, Sony lost its market share.
Pepsi A.M. and Crystal Pepsi	In the late 1980s, Pepsi A.M. was marketed as an alternative to coffee for people who wanted a caffeinated beverage in the morning. Crystal Pepsi was introduced about the same time and was a clear cola drink. Neither product caught on with consumers.
Harley-Davidson Perfume	Fans of the Harley-Davidson brand are considered very loyal to the motorcycle maker. Trying to leverage this loyalty and extend its brand, the company introduced perfume, but consumers didn't buy it.
Colgate Kitchen Entrees	Colgate tried to capitalize on its popular brand by introducing a line of frozen dinners in the early 1980s. Unfortunately, consumers thought of Colgate as a toothpaste brand and not a food company.

**Source:** "Top 25 Biggest Product Flops of All Time," *Daily Finance*, accessed March 12, 2014, [www.dailyfinance.com](http://www.dailyfinance.com); Len Penzo, "10 Grocery Products That Flopped," *MSN Money*, accessed March 12, 2014, <http://money.msn.com>; "Top 10 Bad Beverage Ideas," *Time*, accessed March 12, 2014, <http://content.time.com>.

### 3 Product Identification

A major aspect of developing a successful new product involves methods used for identifying a product and distinguishing it from competing offerings. Both tangible goods and intangible services are identified by brands, brand names, and trademarks. A **brand** is a name, term, sign, symbol, design, or some combination that identifies the products of one firm and differentiates them from competitors' offerings. Tropicana, Pepsi, and Gatorade are all made by PepsiCo, but a unique combination of name, symbol, and package design distinguishes each brand from the others.

A **brand name** is that part of the brand consisting of words or letters included in a name used to identify and distinguish the firm's offerings from those of competitors. The brand name is the part of the brand that can be vocalized. Many brand names, such as Coca-Cola, McDonald's, American Express, Google, and Nike, are famous around the world. Likewise, the golden arches brand mark of McDonald's also is widely recognized.

A **trademark** is a brand that has been given legal protection. The protection is granted solely to the brand's owner. Trademark protection includes not only the brand name but also design logos, slogans, packaging elements, and product features such as color and shape. A well-designed trademark, such as the Nike swoosh, can make a difference in how positively consumers perceive a brand.

### Assessment Check

1. What are the stages of the product life cycle?
2. What are the marketing implications of each stage?

**brand** name, term, sign, symbol, design, or some combination that identifies the products of one firm and differentiates them from competitors' offerings.

**brand name** part of the brand consisting of words or letters included in a name used to identify and distinguish the firm's offerings from those of competitors.

**trademark** brand that has been given legal protection.

## Selecting an Effective Brand Name

Good brands are easy to pronounce, recognize, and remember: Crest, Visa, and Pepsi are examples. Global firms face a real problem in selecting brand names, because an excellent brand name in one country may prove disastrous in another. Most languages have a short *a*, so Coca-Cola is pronounceable almost anywhere. But an advertising campaign for E-Z washing machines failed in the United Kingdom because the British pronounce *z* as “zed.”

Brand names should also convey the right image to the buyer. One effective technique is to create a name that links the product with its positioning strategy. The name Purell reinforces the concept of sanitizing hands to protect against germs, Dove soap and beauty products give an impression of mildness, and Taster’s Choice instant coffee supports the promotional claim “Tastes and smells like ground roast coffee.”

Brand names also must be legally protectable. Trademark law specifies that brand names cannot contain words in general use, such as *television* or *automobile*. Generic words—words that describe a type of product—cannot be used exclusively by any organization. On the other hand, if a brand name becomes so popular that it passes into common language and turns into a generic word, the company can no longer use it as a brand name. Once upon a time, aspirin, linoleum, and zipper were exclusive brand names, but today they have become generic terms and are no longer legally protectable.

## Brand Categories

A brand offered and promoted by a manufacturer is known as a *manufacturer’s* (or *national*) *brand*. Examples are Tide, Cheerios, Windex, North Face, and Nike. But not all brand names belong to manufacturers; some are the property of retailers or distributors. A *private* (or *store*) *brand* identifies a product that is not linked to the manufacturer but instead carries a wholesaler’s or retailer’s label. Sears’s Craftsman tools and Walmart’s Ol’ Roy dog food are examples.

Another branding decision marketers must make is whether to use a family branding strategy or an individual branding strategy. A *family brand* is a single brand name used for several related products. KitchenAid, Johnson & Johnson, Hewlett-Packard, and Arm & Hammer use a family name for their entire line of products. When a firm using family branding introduces a new product, both customers and retailers recognize the familiar brand name. The promotion of individual products within a line benefits all the items because the family brand is well known.

Other firms use an *individual branding* strategy by giving each product within a line a different name. For example, Procter & Gamble has individual brand names for its different laundry detergents, including Tide, Cheer, and Gain. Each brand targets a unique market segment. Consumers who want a cold-water detergent can choose Cheer over Tide or Gain, instead of purchasing a competitor’s brand. Individual branding also builds competition within a firm and enables the company to increase overall sales.

## Brand Loyalty and Brand Equity

Brands achieve varying consumer familiarity and acceptance. While a homeowner may insist on Andersen windows when renovating, the consumer buying a loaf of bread may not prefer any brand. Consumer loyalty increases a brand’s value, so marketers try to strengthen brand loyalty. When a brand image suffers, marketers try to recreate a positive image.

**Brand Loyalty** Marketers measure brand loyalty in three stages: brand recognition, brand preference, and brand insistence. *Brand recognition* is brand acceptance strong enough that the consumer is aware of the brand, but not strong enough to cause a preference over other brands. A consumer might have heard of L’Oréal hair care products, for instance, without necessarily preferring them to Redken. Advertising, free samples, and discount coupons are among the most common ways to increase brand recognition.



To be effective, brand names must be easy for consumers to pronounce, recognize, and remember.

*Brand preference* occurs when a consumer chooses one firm's brand over a competitor's. At this stage, the consumer usually relies on previous experience in selecting the product. Furniture and other home furnishings fall into this category. A shopper who purchased an IKEA dining room table and chairs and was satisfied with them is likely to return to purchase a bedroom set. While there, this shopper might pick up a set of mixing bowls for the kitchen or a lamp for the family room—because he or she knows and likes the IKEA brand.

*Brand insistence* is the ultimate degree of brand loyalty, in which the consumer will look for it at another outlet, special-order it from a dealer, order by mail, or search the Internet. Shoppers who insist on IKEA products for their homes may drive an hour or two—making a day excursion of the venture—to visit an IKEA store. The combination of value for the money and the concept of IKEA as a shopping destination have given the brand a unique allure for shoppers.<sup>14</sup>

Brand-building strategies were once limited to the consumer realm, but now they are becoming more important for B2B brands as well. Intel, Xerox, IBM, and service providers such as ServiceMaster and Cisco are among the suppliers who have built brand names among business customers.

**Brand Equity** Brand loyalty is at the heart of **brand equity**, the added value that a respected and successful name gives to a product. This value results from a combination of factors, including awareness, loyalty, and perceived quality, as well as any feelings or images the customer associates with the brand. High brand equity offers financial advantages to a firm, because the product commands a relatively large market share and sometimes reduces price sensitivity, generating higher profits. Figure 12.4 shows the world's 10 most valuable brands.

*Brand awareness* means the product is the first one that comes to mind when a product category is mentioned. If someone says “coffee,” do you think of Starbucks, Dunkin’ Donuts, or Folgers? Brand association is the link between a brand and other favorable images. A recent survey of recognizable logos with strong brand identities includes Starbucks, McDonald’s, Target, Disney, Apple, and eBay.<sup>15</sup>

Large companies have typically assigned the task of managing a brand's marketing strategies to a *brand manager*, who may also be called a *product manager* at some firms. This marketer plans and implements the balance of promotional, pricing, distribution, and product arrangements that leads to strong brand equity. A *category manager*, a newer type of marketer, oversees an entire group of products. Unlike traditional brand or product managers, category managers have profit responsibility for their product group. These managers are assisted by associates, usually called *analysts*. Part of the shift to category management was initiated by large retailers, when they realized there could be a benefit from the marketing muscle of large grocery and household goods producers such as General Mills and Procter & Gamble. As a result, producers began to focus their attention on in-store merchandising

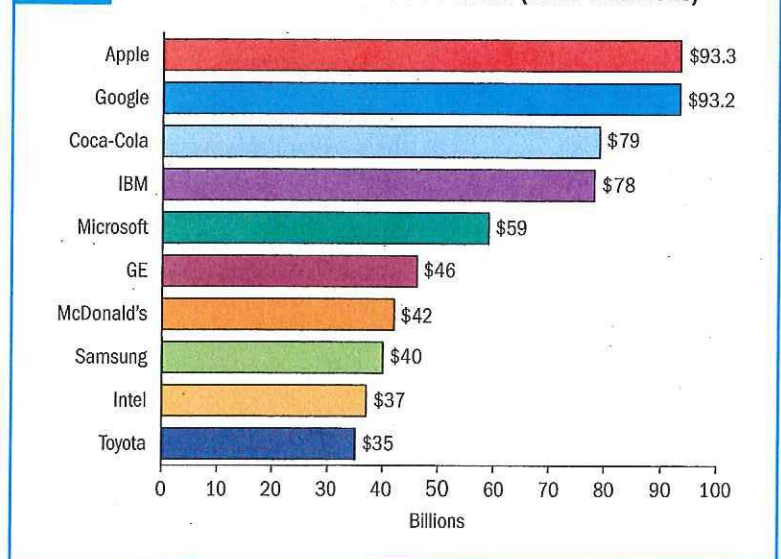


Brian Benson/Feature Photo Service/NewsCom

IKEA installed this clever showpiece, meant to look like a bus stop, in New York City during Design Week. The retailer of affordable, well-designed contemporary furniture enjoys *brand insistence*—the ultimate expression of brand loyalty. For devoted IKEA fans, no other brand will do.

**brand equity** added value that a respected and successful name gives to a product.

FIGURE 12.4 The World's 10 Most Valuable Brands (sales in billions)



Source: “Best Global Brands 2013,” Interbrand, accessed March 11, 2014, [www.interbrand.com](http://www.interbrand.com).

## Creating an Identity for Brand X

Does influencing how a consumer's emotional perception, experience, or connection with a brand interest you? Would it be exciting to enhance a consumer's relationship to a brand by developing a product's look, price, and packaging? If so, becoming a brand manager might be for you.

The career path to a brand manager typically includes an entry-level position as a marketing analyst or sales representative, which requires a college degree. To become an assistant brand manager, with the responsibility for developing a brand's strategy, several years of experience or a degree may be required. The skills most sought after for brand managers include strategic vision and the intuition and ability to react. Most brand managers also have some background in marketing or sales. So, what exactly does a brand manager do?

- Monitors the competitive landscape of a brand's category or segment
- Develops strategies to take advantage of opportunities in the marketplace
- Executes those strategies with the help of a cross-functional marketing team
- Delivers the sales volume, market share, and profit projections forecasted by company management

As part of a company's marketing function, a brand manager sets the strategic direction of a brand and works with various departments within the organization to execute the strategy. This includes product and strategy development, manufacturing, product extension, package design, marketing research, business and financial forecasts and analysis, and, of course, promotion.

**Sources:** "A Day in the Life: Assistant Brand Manager," *Vault*, accessed March 12, 2014, [www.vault.com](http://www.vault.com); "Career Overview: Brand Management," *Wet Feet*, accessed March 12, 2014, [www.wetfeet.com](http://www.wetfeet.com); "What Does a Brand Manager Do?," *wiseGEEK*, accessed March 12, 2014, [www.wisegeek.org](http://www.wisegeek.org); Victoria Black, "A Day in the Life: Assistant Brand Manager," *Bloomberg Businessweek*, accessed March 12, 2014, [www.businessweek.com](http://www.businessweek.com).

### category advisor

vendor that is designated by the business customer as the major supplier to assume responsibility for dealing with all the other vendors for a project and presenting the entire package to the business buyer.

instead of mass-market advertising: See the "Career Kickstart" feature for more details on how to be a brand manager.

A **category advisor** functions in the B2B context. This vendor is the major supplier designated by a business customer to assume responsibility for dealing with all the other vendors for a project and presenting the entire package to the business buyer.

## Packages and Labels

Packaging and labels are important in product identification. They also play an important role in a firm's overall product strategy. Packaging affects the durability, image, and convenience of an item and is responsible for one of the biggest costs in many consumer products. Due to a growing demand to produce smaller, more environmentally friendly packages, box manufacturers and chemical companies are now working harder to create more compact packaging that is made from renewable sources and is recyclable. One-third of America's waste consists of containers and packaging, much of it from fast-food chains. New York-based Just Salad offers reusable salad bowls, and free toppings are given to customers who bring back the bowls for subsequent use. Whole Foods gives customers a five-cent refund for each bag they bring in to pack their purchases, or customers can donate the money to a local not-for-profit organization.<sup>16</sup>

Choosing the right package is especially crucial in international marketing because marketers must be aware of such factors as language variations and cultural preferences. Consumers in African nations often prefer bold colors, but use of the country's flag colors may be problematic. Some countries frown on other uses of their flag. Also, in Africa red is often associated with death or witchcraft. Package size can vary according to the purchasing patterns and

market conditions of a country. In countries with small refrigerators, people may want to buy their beverages one at a time rather than in six-packs. Package weight is another important issue, because shipping costs are often based on weight.

Labeling is an integral part of the packaging process as well. In the United States, labeling must meet federal laws requiring companies to provide enough information to allow consumers to make value comparisons among competitive products and, in the case of food packaging, provide nutrition information on the label. Marketers who ship products to other countries have to comply with labeling requirements in those nations. This means knowing the answers to such questions as the following:

- Should the labels be in more than one language?
- Should ingredients be specified?
- Do the labels give enough information about the product to meet government standards?

The U.S. Food and Drug Administration (FDA) regulates the labeling of food and drug products, investigates violations, and enforces compliance with the Food, Drug, and Cosmetic Act. Typical violations include unauthorized health claims, unauthorized nutrient content claims, and unauthorized use of such terms as “healthy” and others that have strict regulatory definitions. The FDA is working on revising and updating food label requirements to emphasize calories and sugar content.<sup>17</sup>

Another important aspect of packaging and labeling is the *universal product code (UPC)*, the bar code read by optical scanners that print the name of the item and the price on a receipt. For many stores, these identifiers are useful not just for packaging and labeling but also for simplifying and speeding retail transactions and for evaluating customer purchases and controlling inventory. Radio-frequency identification (RFID) technology—embedded chips that can broadcast their product information to receivers—may also serve as a way to track items effectively. It is unlikely, however, that they will replace bar codes.



Teri Stratford

Due to a growing demand to produce more environmentally friendly packages, manufacturers are working harder to create more compact packaging that is made from renewable sources and is recyclable.

## 4 Distribution Strategy

The next element of the marketing mix, **distribution strategy**, deals with the marketing activities and institutions involved in getting the right good or service to the firm’s customers. Distribution decisions involve modes of transportation, warehousing, inventory control, order processing, and selection of marketing channels. Marketing channels typically are made up of intermediaries such as retailers and wholesalers that move a product from producer to final purchaser.

The two major components of an organization’s distribution strategy are distribution channels and physical distribution. **Distribution channels** are the paths that products—and legal ownership of them—follow from producer to consumer or business user. They are the means by which all organizations distribute their goods and services. **Physical distribution** is the actual movement of products from producer to consumers or business users. Physical distribution covers a broad range of activities, including customer service, transportation, inventory control, materials handling, order processing, and warehousing. Amazon is creating innovative distribution solutions by piggybacking with its suppliers, as described in the “Hit & Miss” feature.

### Distribution Channels

In their first decision for distribution channel selection, marketers choose which type of channel will best meet both their firm’s marketing objectives and the needs of their customers. As shown in Figure 12.5, marketers can choose either a *direct distribution channel*, which carries goods directly from producer to consumer or business user, or distribution channels that involve several different marketing intermediaries. A *marketing intermediary* (also called a *middleman*) is a business firm that moves goods between producers and consumers or business users. Marketing intermediaries perform various functions that help the distribution channel operate smoothly, such as buying, selling, storing, and transporting products; sorting and grading bulky items; and providing information to other channel members. The two main categories of marketing intermediaries are wholesalers and retailers.

### Assessment Check

1. Differentiate among a brand, a brand name, and a trademark.
2. Define *brand equity*.

**distribution strategy** deals with the marketing activities and institutions involved in getting the right good or service to the firm’s customers.

**distribution channels** path that products—and legal ownership of them—follow from producer to consumers or business user.

**physical distribution** actual movement of products from producer to consumers or business users.

## Amazon and P&G Share Warehouses

For the past few years, Procter & Gamble has been quiet about sharing some of its warehouse space. E-commerce giant Amazon wants a bigger piece of the consumer packaged goods market, projected to grow 25 percent a year for the next few years, and hopes to achieve that growth with a little help from its suppliers and a program it calls Vendor Flex, currently in place in seven of P&G's distribution warehouses.

By piggybacking on the distribution networks and warehouses of its suppliers, Amazon is able to reduce shipping, warehouse, and distribution costs, and equally important, the time it takes to get a package to a consumer's doorstep. P&G's distribution system, along with consumers' moving online to purchase everyday products, is good news for Amazon, which is looking for new ways to grow among the intense competition from the likes of Walmart, Costco, and Target.

P&G loads products onto pallets and brings them over to Amazon's side, where employees package, label, and ship to customers. While Amazon can ship from its own fulfillment centers, the company prefers to reserve its warehouse space for its higher margin, e-commerce items.

Amazon's entry into the consumer packaged goods market began with its \$500 million purchase of Quidsi, parent company of Diaper.com,

BeautyBar.com, and Soap.com. Sharing warehouses is a win for both companies. For P&G, it is an opportunity to see Amazon's fine-tuned fulfillment know-how in action and to learn more about online selling. For Amazon, the sharing strategy translates to more distribution locations for its lower margin items, reduced costs, and quicker delivery.

### Questions for Critical Thinking

1. How should Amazon respond to third-party sellers when asked about the shared arrangement with Procter & Gamble?
2. What are some disadvantages of two companies sharing warehouse space?

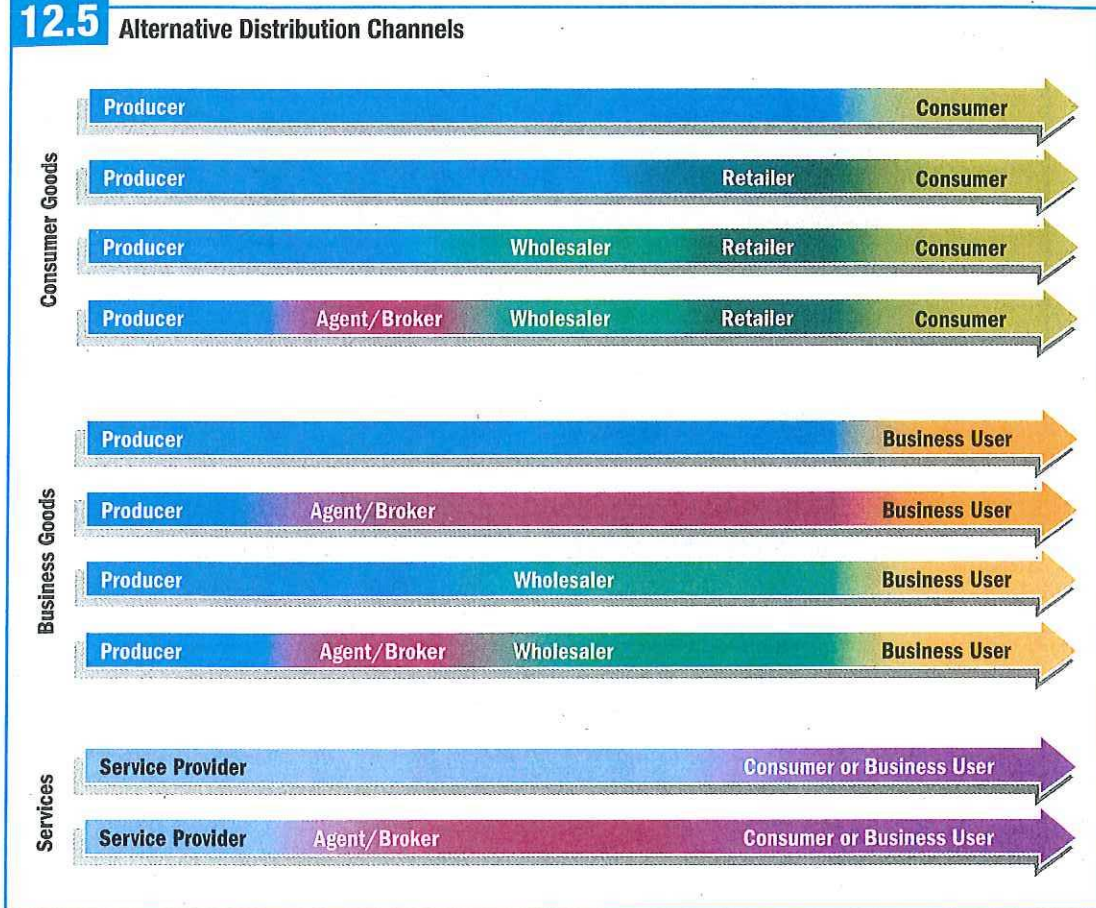
**Sources:** Serena Ng, "Soap Opera: Amazon Moves in with P&G," *The Wall Street Journal*, accessed February 16, 2014, <http://online.wsj.com>; company website, [www.quidsi.com](http://www.quidsi.com), accessed February 16, 2014; "Amazon's Vendor Flex Supply Chain Innovation," *Technology Evaluation Centers*, accessed February 16, 2014, [www.technologyevaluation.com](http://www.technologyevaluation.com); Jeffrey Grau, "US Retail eCommerce Outlook—What's Driving Growth," *eMarketer*, accessed February 16, 2014, [www.emarketer.com](http://www.emarketer.com).

No one channel suits every product. The best choice depends on the circumstances of the market and on customer needs. The most appropriate channel choice may also change over time as new opportunities arise and marketers strive to maintain their competitiveness. Currently, most smart phones sold in the United States are tied to a specific wireless carrier that controls all distribution of its particular phone. Consumers can choose a smart phone but can't choose the carrier. Google offers an unlocked smart phone, the Samsung Galaxy Nexus, which works on networks worldwide through its Google Play store. The company wants to give consumers the option to choose a distribution channel that is not tied directly to a wireless carrier. In this type of business model, buyers would be able to select a phone first and then sign up with a carrier, much as they can now buy any brand of computer regardless of their Internet service provider.<sup>18</sup>

**Direct Distribution** The shortest and simplest means of connecting producers and customers is direct contact between the two parties. This approach is most common in the B2B market. Consumers who buy fresh fruits and vegetables at rural roadside stands or farmers markets use direct distribution, as do services ranging from banking and 10-minute oil changes to ear piercing and Mary Kay Cosmetics.

Direct distribution is commonly found in the marketing of relatively expensive, complex products that may require demonstrations. Most major B2B products such as installations, accessory equipment, component parts, business services, and even raw materials are typically marketed through direct contacts between producers and business buyers. The Internet has also made direct distribution an attractive option for many retail companies and service providers. In an effort to bypass the traditional wholesale route of selling through multibrand boutiques and department stores, online companies like Bonobos and Wayfair have found alternative ways to sell directly to consumers. Several years ago, Bayard Winthrop started San Francisco-based American Giant, a web-only apparel business, in an effort to eliminate

**FIGURE 12.5** Alternative Distribution Channels



excessive markups by intermediaries, maintain decent margins, and provide superior customer service.<sup>19</sup>

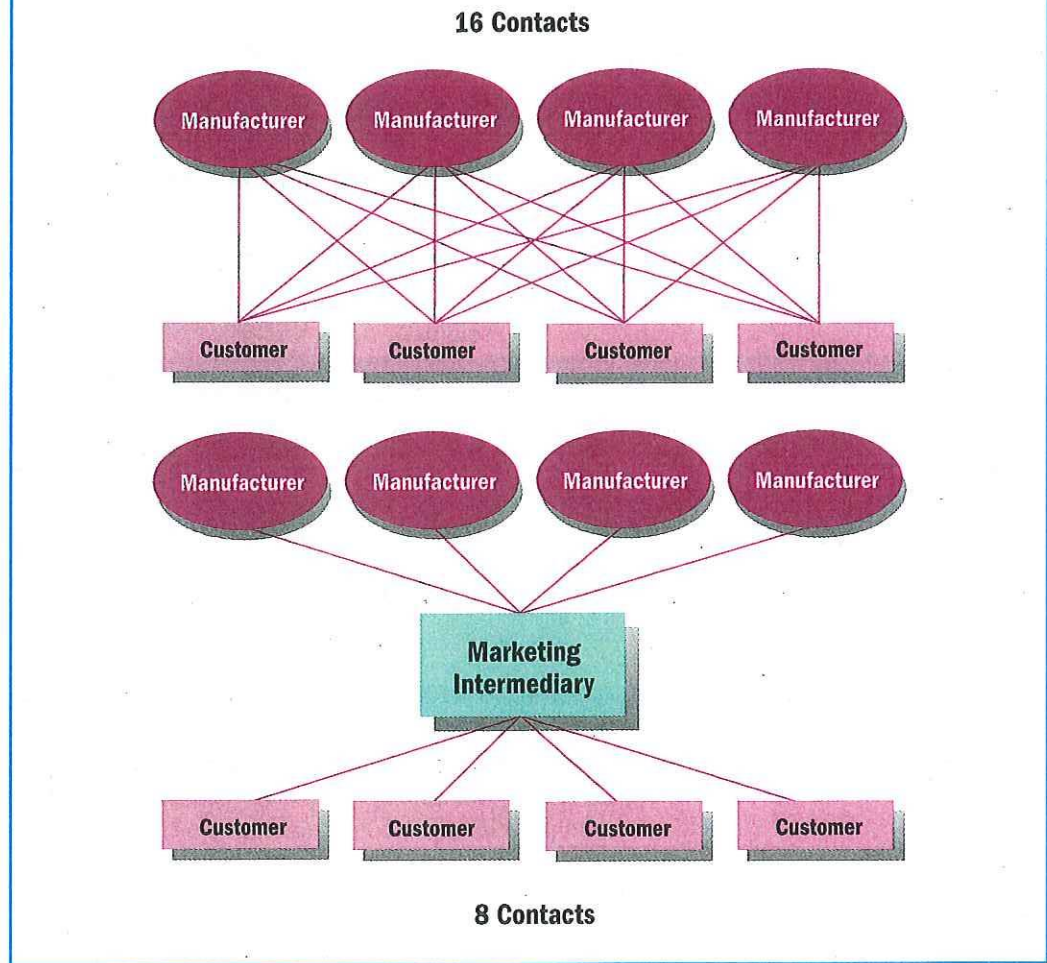
**Distribution Channels Using Marketing Intermediaries** Although direct channels allow simple and straightforward connections between producers and their customers, the list of channel alternatives in Figure 12.5 suggests that direct distribution is not the best choice in every instance. Some products sell in small quantities for relatively low prices to thousands of widely scattered consumers. Makers of such products cannot cost effectively contact each of their customers, so they distribute products through marketing intermediaries called *wholesalers* and *retailers*.

Although you might think that adding intermediaries to the distribution process would increase the final cost of products, more often than not this choice actually lowers consumer prices. Intermediaries such as wholesalers and retailers often add significant value to a product as it moves through the distribution channel. They do so by creating utility, providing additional services, and reducing costs.

Marketing utility is created when intermediaries help ensure that products are available for sale when and where customers want to purchase them. If you want something warm to eat on a cold winter night, you don't call up Campbell's Soup and ask them to ship a can of chicken noodle soup. Instead, you go to the nearest grocery store, where you find utility in the form of product availability. In addition, intermediaries perform such important services as transporting merchandise to convenient locations. Finally, by representing numerous producers, a

FIGURE  
12.6

Reducing Transactions through Marketing Intermediaries



## Assessment Check

1. Define *distribution channels*.
2. What is a marketing intermediary?

marketing intermediary can cut the costs of buying and selling. As Figure 12.6 shows, if four manufacturers each sold directly to four consumers, this would require 16 separate transactions. Adding a marketing intermediary, such as a retailer, to the exchange cuts the number of necessary transactions to eight.

5

## Wholesaling

**wholesaler** distribution channel member that sells primarily to retailers, other wholesalers, or business users.

A **wholesaler** is a distribution channel member that sells primarily to retailers, other wholesalers, or business users. For instance, Sysco is a wholesaler that buys food products from producers and then resells them to restaurants, hotels, and other institutions in the United States and Canada.

Wholesaling is a crucial part of the distribution channel for many products, particularly consumer goods and business supplies. Wholesaling intermediaries can be classified on the basis of ownership; some are owned by manufacturers, some are owned by retailers, and others are independently owned. The United States has about 486,000 wholesalers, two-thirds of which have fewer than 20 employees.<sup>20</sup>

## Manufacturer-Owned Wholesaling Intermediaries

A manufacturer's marketing manager may decide to distribute goods directly through company-owned facilities to control distribution or customer service. Firms operate two main types of manufacturer-owned wholesaling intermediaries: sales branches and sales offices.

*Sales branches* stock the products they distribute and fill orders from their inventories. They also provide offices for sales representatives. Sales branches are common in the chemical, petroleum products, motor vehicle, and machine and equipment industries.

A *sales office* is exactly what its name implies: an office for a producer's salespeople. Manufacturers set up sales offices in various regions to support local selling efforts and improve customer service. Some kitchen and bath fixture manufacturers maintain showrooms to display their products. Builders and decorators can visit these showrooms to see how the items would look in place. Unlike sales branches, however, sales offices do not store any inventory. When a customer orders from a showroom or other sales office, the merchandise is delivered from a separate warehouse.

## Independent Wholesaling Intermediaries

An independent wholesaling intermediary is a business that represents a number of different manufacturers and makes sales calls on retailers, manufacturers, and other business accounts. Independent wholesalers are classified as either merchant wholesalers or agents and brokers, depending on whether they take title to the products they handle.

*Merchant wholesalers*, like apparel wholesaler WholesaleSarong.com, are independently owned wholesaling intermediaries that take title to the goods they handle. Within this category, a *full-function merchant wholesaler* provides a complete assortment of services for retailers or industrial buyers, such as warehousing, shipping, and even financing. A subtype of full-function merchant is a *rack jobber*, such as Virginia-based Choice Books, which handles distribution of inspirational books to retail stores. This type of firm stocks, displays, and services particular retail products, such as calendars, books, and note cards, in drug stores and gift shops. Usually, the retailer receives a commission based on actual sales as payment for providing merchandise space to a rack jobber.

A *limited-function merchant wholesaler* also takes legal title to the products it handles, but it provides fewer services to the retailers to which it sells. Some limited-function merchant wholesalers only warehouse products but do not offer delivery service. Others warehouse and deliver products but provide no financing. One type of limited-function merchant wholesaler is a *drop shipper* such as Kate Aspen, an Atlanta-based wholesaler of wedding favors. Drop shippers also operate in such industries as coal and lumber, characterized by bulky products for which no single producer can provide a complete assortment. They give access to many related goods by contacting numerous producers and negotiating the best possible prices. Cost considerations call for producers to ship such products directly to the drop shipper's customers.

Another category of independent wholesaling intermediaries consists of *agents* and *brokers*. They may or may not take possession of the goods they handle, but they never take title, working mainly to bring buyers and sellers together. Stockbrokers such as Charles Schwab and real estate agents such as RE/MAX perform functions similar to those of agents and brokers, but at the retail level. They do not take title to the sellers' property; instead, they create time and ownership utility for both buyer and seller by helping carry out transactions.

*Manufacturers' reps* act as independent sales forces by representing the manufacturers of related but noncompeting products. These agent intermediaries, sometimes referred to as *manufacturers' agents*, receive commissions based on a percentage of the sales they make.

## Retailer-Owned Cooperatives and Buying Offices

Retailers sometimes band together to form their own wholesaling organizations. Such organizations can take the form of either a buying group or a cooperative. The participating retailers set up the new operation to reduce costs or to provide some special service that is not readily available in the marketplace. To achieve cost savings through quantity purchases,

## Assessment Check

1. Define *wholesaling*.
2. Differentiate between a merchant wholesaler and an agent or broker in terms of title to the goods.

**retailer** distribution channel member that sells goods and services to individuals for their own use rather than for resale.

independent retailers may form a buying group that negotiates bulk sales with manufacturers. Ace Hardware is a retailer-owned cooperative. The independent owners of its 4,600 stores have access to bulk merchandise purchases that save them—and their customers—money.<sup>21</sup> In a cooperative, an independent group of retailers may decide to band together to share functions such as shipping or warehousing.

## 6 Retailing

**Retailers**, in contrast to wholesalers, are distribution channel members that sell goods and services to individuals for their own use rather than for resale. Consumers usually buy their food, clothing, shampoo, furniture, and appliances from some type of retailer. The supermarket where you buy your groceries may have bought some of its items from a wholesaler such as Unified Grocers and then resold them to you.

Retailers are the final link—the so-called last three feet—of the distribution channel. Because they are often the only channel members that deal directly with consumers, it is essential that retailers remain aware of changing shopping trends. For instance, soaring gas prices affect consumers' budgets, so they may make fewer trips to the mall or cut back on nonessential purchases. As a result, retailers may need to offer special sales or events to lure customers to their outlets. It is also important for retailers to keep pace with developments in the fast-changing business environment, such as the disruption in delivery of supplies from natural disasters like wildfires or storms.

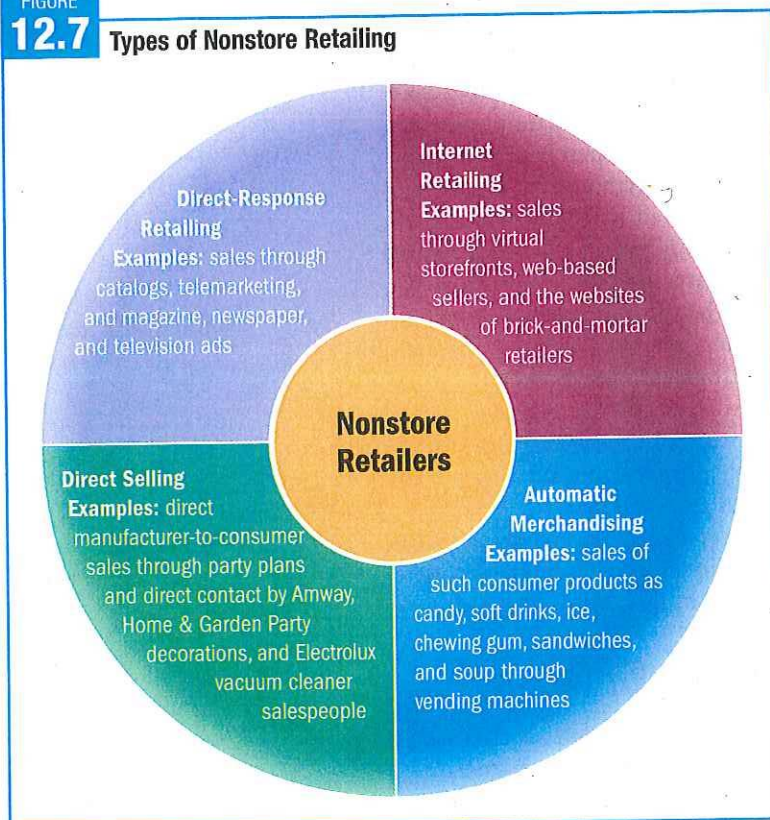
## Nonstore Retailers

Two categories of retailers exist: store and nonstore. As Figure 12.7 shows, nonstore retailing includes four forms: direct-response retailing, Internet retailing, automatic merchandising, and direct selling.

*Direct-response retailing* reaches prospective customers through catalogs; telemarketing; and even magazine, newspaper, and television ads. Shoppers order merchandise by mail, telephone, computer, or mobile device and then receive home delivery or pick the merchandise up at a local store. Lands' End has long stood out as a highly successful direct-response retailer; its well-known clothing catalog and stellar customer service have set the standard for this type of distribution channel.

*Internet retailing*, the second form of nonstore retailing, has grown rapidly. Tens of thousands of retailers have set up shop online, with sales growing at a rate of about 5 percent a year (as compared with declines in total retail sales). Today, online sales account for almost 6 percent of total retail sales.<sup>22</sup> A severe shakeout saw hundreds of Internet enterprises shut down during the first decade of the 21st century, but firms that survived have stronger business models than those that failed. Two examples of successful pure dot-com companies are Amazon and eBay. A major shift in retailing has seen traditional brick-and-mortar retailers competing with e-commerce start-ups by building their own websites as an option for shoppers. Nordstrom, Macy's, and Walmart report strong online sales. Shopping sites are among the most popular Internet destinations, and the most common products purchased online include electronics, clothing, household goods, and office supplies.

FIGURE 12.7 Types of Nonstore Retailing



The last two forms of nonstore retailing are automatic merchandising and direct selling. *Automatic merchandising* provides convenience through the use of vending machines. ATMs may soon join the ranks of vending machines as banks find new ways to compete for customers. NCR Corporation, a leading manufacturer of ATMs, will soon be putting human tellers on its screens. The new interactive teller includes human help to assist customers with transactions in English or Spanish, with more languages to be added in the future. Bank of America hopes the use of remote tellers at its ATMs will help build deeper customer relationships.<sup>23</sup> *Direct selling* includes direct-to-consumer sales by Pampered Chef kitchen consultants and salespeople for Silpada sterling silver jewelry through party-plan selling methods. Both are forms of direct selling.

Companies that previously relied heavily on telemarketing to generate new customers have encountered consumer resistance to intrusive phone calls. Among the growing barriers are caller ID, call-blocking devices such as the TeleZapper, and the National Do Not Call list, which made it illegal for most companies to call people who are registered. As a result, dozens of companies, including telecommunications and regional utilities, have sent direct-mail pieces to promote such services as phones, cable television, and natural gas distributors.



HO Marketwire Photos/Newscom

Bank of America hopes the use of remote human tellers at its ATMs will build stronger customer relationships.

## Store Retailers

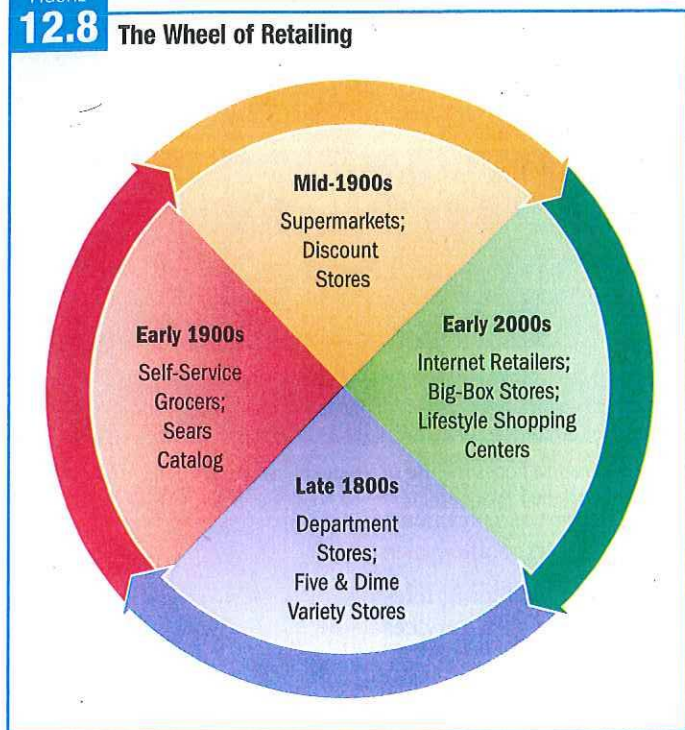
In-store sales still outpace nonstore retailing methods such as direct-response retailing and Internet selling. Store retailers range in size from tiny newsstands to multistory department stores and multiacre warehouse-like retailers such as Sam's Club. Table 12.2 lists the different

TABLE

### 12.2 Types of Retail Stores

STORE TYPE	DESCRIPTION	EXAMPLE
Specialty store	Offers complete selection in a narrow line of merchandise	Bass Pro Shops, Dick's Sporting Goods, Williams-Sonoma
Convenience store	Offers staple convenience goods, easily accessible locations, extended store hours, and rapid checkouts	7-Eleven, Mobil Mart, QuikTrip
Discount store	Offers wide selection of merchandise at low prices; off-price discounters offer designer or brand-name merchandise	Target, Walmart, Dollar General, Marshalls
Warehouse club	Large, warehouse-style store selling food and general merchandise at discount prices to membership cardholders	Costco, Sam's Club, BJ's
Factory outlet	Manufacturer-owned store selling seconds, production overruns, or discontinued lines	Adidas, Coach, Pottery Barn, Ralph Lauren
Supermarket	Large, self-service retailer offering a wide selection of food and nonfood merchandise	Publix, Whole Foods Market, Kroger
Supercenter	Giant store offering food and general merchandise at discount prices	Walmart Supercenter, Super Target, Meijer
Department store	Offers a wide variety of merchandise selections (furniture, cosmetics, housewares, clothing) and many customer services	Macy's, Nordstrom, Neiman Marcus

FIGURE  
**12.8** The Wheel of Retailing



types of store retailers, with examples of each type. Clearly, there are many approaches to retailing and a variety of services, prices, and product lines offered by each retail outlet.

**The Wheel of Retailing** Retailers are subject to constant change as new stores replace older establishments. In a process called the *wheel of retailing*, new retailers enter the market by offering lower prices made possible through reductions in service. Supermarkets and discount houses, for example, gained their initial market footholds through low-price, limited-service appeals. These new entries gradually add services as they grow and ultimately become targets for new retailers.

As Figure 12.8 shows, most major developments in retailing appear to fit the wheel pattern. The low-price, limited-service strategy characterized supermarkets, catalog retailers, discount stores, and, most recently, Internet retailers and giant big-box stores, such as PetSmart, Lowe's, and Office Depot. Corner grocery stores gave way to supermarkets and then to warehouse clubs such as Costco or BJ's. Department stores lost market share to discount clothing retailers such as Target and Marshalls. Independent bookstores have lost business to giant chains such as Barnes & Noble and such online-only sellers such as Amazon.com and Buy.com.

Even though the wheel of retailing does not fit every pattern of retail evolution—for example, automatic merchandising has always been a relatively high-priced method of retailing—it does give retail managers a general idea of what is likely to occur during the evolution of retailing. It also shows that business success involves the “survival of the fittest.” Retailers that fail to change fail to survive.

## How Retailers Compete

Retailers compete with each other in many ways. Nonstore retailers focus on making the shopping experience as convenient as possible. Shoppers at stores such as Saks Fifth Avenue enjoy a luxurious atmosphere and personal service. In fact, those who visit the new shoe department at the flagship store in New York have the run of the entire eighth floor, devoted entirely to shoes—with its own zip code. The elite shopping experience includes a private VIP room, a repair service, and a chocolate café.<sup>24</sup>

Like manufacturers, retailers must develop marketing strategies based on goals and strategic plans. Successful retailers convey images that alert consumers to the stores' identities and the shopping experiences they provide. To create that image, all components of a retailer's strategy must complement each other. After identifying their target markets, retailers must choose merchandising, customer service, pricing, and location strategies that will attract customers in those market segments.

**Identifying a Target Market** The first step in developing a competitive retailing strategy is to select a target market. This choice requires careful evaluation of the size and profit potential of the chosen market segment and the current level of competition for the segment's business. Bargain stores such as Dollar General target the price-conscious consumer, for example, while convenience stores like 7-Eleven target consumers who want an easy way to purchase items they buy frequently. As Baby Boomers get older, many suffer from mild-to-moderate hearing loss. California-based Soundhawk is a wearable ear computer

created by a physician. The device is a polished curve piece of black plastic, indistinguishable from a Bluetooth phone headset, and carries no stigma of the old-fashioned hearing aids worn by previous generations. A Soundhawk wearer can create a personalized auditory profile with a smart phone app to adjust phone frequencies for better short-range conversations and less background noise.<sup>25</sup>

**Selecting a Product Strategy** After identifying a target market, the retailer must next develop a product strategy to determine the best mix of merchandise to carry to satisfy that market. Retail strategists must decide on the general product categories, product lines, and variety to offer. Sometimes that involves expanding the product mix and sometime it involves contracting it. Almost 20 years ago, Under Armour began making tee shirts to help athletes stay cool and dry. Since then, the company has expanded its brand to include women's and children's clothing, as well as football cleats and running shoes.<sup>26</sup>

**Shaping a Customer Service Strategy** A retailer's customer service strategy focuses on attracting and retaining target customers to maximize sales and profits. Some stores offer a wide variety of services, such as gift wrapping, alterations, returns, interior design services, and delivery. Other stores offer bare-bones customer service, stressing low price instead. Some grocery shoppers, for instance, find convenience online through a service such as Peapod, which handles product selection, packing, and delivery. Other shoppers choose to visit a supermarket and make their own selections. Or they can go to a discount supermarket like Iowa-based ALDI, where they not only assemble their orders but also bag their purchases.

**Selecting a Pricing Strategy** Retailers base their pricing decisions on the costs of purchasing products from other channel members and offering services to customers. Pricing can play a major role in consumers' perceptions of a retailer, and not just because they appreciate low prices. The grocery retailer Trader Joe's offers organic and gourmet foods under its own private labels at rock-bottom prices. Customers enjoy shopping for Trader Jose's Mexican specialties and Trader Darwin's nutritional supplements at prices lower than other gourmet or organic markets.<sup>27</sup> Pricing strategy is covered in more detail in Chapter 13.

**Choosing a Location** A good location often marks the difference between success and failure in retailing. The location decision depends on the retailer's size, financial resources, product offerings, competition, and, of course, its target market. Traffic patterns, the visibility of the store's signage, parking, and the location of complementary and competing stores also influence the choice of a retail location.

A *planned shopping center* is a group of retail stores planned, coordinated, and marketed as a unit to shoppers in a geographical trade area. By providing convenient locations with free parking, shopping centers have replaced downtown shopping in many urban areas. But time-pressed consumers are increasingly looking for more efficient ways to shop, including catalogs, online retailers, and one-stop shopping at large free-standing stores such as Walmart Supercenters. To lure more customers, shopping centers are recasting themselves as entertainment destinations, with movie theaters, art displays, carousel rides, and musical entertainment. The giant Mall of America in Bloomington, Minnesota, features a seven-acre amusement park and an aquarium.



Peapod's service strategy of selecting, packing, and delivering groceries has helped attract and retain customers.

# Solving an Ethical Controversy

## Teens at the Mall: Good or Bad for Business?

Some shopping malls have banned unsupervised minors on weekend evenings. Others have initiated a total ban on unaccompanied teens. However, teenagers also spend money at malls. Some merchants who once complained about groups of unsupervised teens have now pinned their revenue hopes on these young spenders.

**Should malls lift curfews on teenagers to boost business?**

### PRO

1. Some studies suggest teenage spending has increased, contrary to expectations after several years of declining figures.
2. Most teenagers are well behaved and should not be banned as a group because of the bad behavior of a few.

### CON

1. Some merchants are still wary because some parents ignore their children's bad behavior.
2. The attractiveness of teenage spending has to be weighed against the reality of crowd behavior. Malls provide a venue for teen fights, flash mobs, and other disturbances.

### Summary

Just as adults spent much less during the recent recession, so did their children. Teenagers have now returned in some measure to previous spending habits, particularly if they are carrying credit cards. Mall owners and civic leaders will need to find a balance between maintaining order and encouraging tomorrow's consumers.

**Sources:** Thomas Tracy and Mark Morales, "Brooklyn Mall Lifts Ban on Teens after Post-Christmas Flash Mob Trouble," *New York Daily News*, accessed February 15, 2014, [www.nydailynews.com](http://www.nydailynews.com); Pattie Kate, "What Are the Characteristics of Teenage Spending?," *wiseGEEK*, accessed February 14, 2014, [www.wisegeek.com](http://www.wisegeek.com); Andrea Chang, "Free-Spending Teens Return to Malls," *Los Angeles Times*, accessed February 14, 2014, <http://articles.latimes.com>; Erica Shaffer, "City Leaders Recommend Total Ban of Unsupervised Teens at Mall," *WTOL*, accessed February 14, 2014, [www.wtol.com](http://www.wtol.com); Fran Daniel, "Mall May Limit Teens: Policy Expected to Require Parental Supervision on Friday, Saturday Evenings," *Winston-Salem Journal*, accessed February 14, 2014, [www2.journalnow.com](http://www2.journalnow.com).

Shopping malls are well-known magnets for teens, who often meet there to socialize with friends. Businesses want to welcome their teen customers, but sometimes the cluster of teens hanging around the mall causes difficulties for other customers and some retailers, as described in the "Solving an Ethical Controversy" feature.

Large regional malls have witnessed a shift in shopping center traffic to smaller strip centers, name-brand outlet centers, and *lifestyle centers*, open-air complexes containing retailers that often focus on specific shopper segments and product interests. In recent years, lifestyle centers' grew at a rate of more than 30 percent.<sup>28</sup>

**Building a Promotional Strategy** A retailer designs advertisements and develops other promotions to stimulate demand and to provide information such as the store's location, merchandise offerings, prices, and hours. When a recent year proved to be difficult, Starbucks turned to social media for a new promotional strategy. The chain launched MyStarbucksIdea.com, a forum where customers could ask questions, offer suggestions, and even voice their dislikes. The site's more than 180,000 registered users have offered more than 100,000 ideas, of which 150 have been implemented. The Starbucks Facebook page has a staggering 36 million fans; the chain also has nearly 7 million Twitter followers.<sup>29</sup>

Nonstore retailers provide their phone numbers and website addresses. More recently, online retailers have scaled back their big advertising campaigns and worked to build traffic through word of mouth and clever promotions. Promotional strategy is also discussed in depth in Chapter 13.

**Creating a Store Atmosphere** A successful retailer closely aligns its merchandising, pricing, and promotion strategies with *store atmospherics*, the physical characteristics of a store and its amenities, to influence consumers' perceptions of the shopping experience. Atmospherics begin with the store's exterior, which may use eye-catching architectural elements and signage to attract customer attention and interest. Interior atmospheric elements include store layout, merchandise presentation, lighting, color, sound, and cleanliness. A high-end store such as Nordstrom, for instance, features high ceilings in selling areas that spotlight tasteful and meticulously cared-for displays of carefully chosen items of obvious quality. Dick's Sporting Goods, on the other hand, carries an ever-changing array of moderately priced clothing and gear in its warehouse-like settings furnished with industrial-style display hardware.

## 7 Distribution Channel Decisions and Logistics

Every firm faces two major decisions when choosing how to distribute its goods or services: selecting a specific distribution channel and deciding on the level of distribution intensity. In deciding which distribution channel is most efficient, business managers need to consider four factors: the market, the product, the producer, and the competition. These factors are often interrelated and may change over time. In today's global business environment, strong relationships with customers and suppliers are important for survival. PortionPac, maker of concentrated cleaning solutions, distributes its products only to organizations. See the "Hit & Miss" feature for more details.

### Selecting Distribution Channels

Market factors may be the most important consideration in choosing a distribution channel. To reach a target market with a small number of buyers or buyers concentrated in a geographical area, the most feasible alternative may be a direct channel. In contrast, if the firm must reach customers who are dispersed or who make frequent small purchases, then the channel may need to incorporate marketing intermediaries to make goods available when and where customers want them.

In general, standardized products or items with low unit values usually pass through relatively long distribution channels. On the other hand, products that are complex, expensive, custom made, or perishable move through shorter distribution channels involving few—or no—intermediaries. The increasing prevalence of e-commerce is resulting in changes in traditional distribution practices. The European Commission recently issued a set of rules, effective until 2022, that permit makers of goods with less than a 30 percent market share—usually high-end manufacturers—to block Internet-only retailers from carrying their products. The European Alliance—representing such luxury goods manufacturers as LVMH (Louis Vuitton Moët Hennessey), Gucci, and Burberry—lobbied for and welcomed the new rules as a way to protect the quality image of their products. Online-only retailers, such as Amazon, eBay, and their European counterparts, called for repeal of the bricks-and-mortar requirement and warned that some manufacturers would use the new rules to “restrict the availability” of their products online and thus keep prices high.<sup>30</sup>

Producers that offer a broad product line, with the financial and marketing resources to distribute and promote it, are more likely to choose a shorter channel. Instead of depending on marketing intermediaries, financially strong manufacturers with broad product lines typically use their own sales representatives, warehouses, and credit departments to serve both retailers and consumers.

In many cases, start-up manufacturers turn to direct channels because they can't persuade intermediaries to carry their products or because they want to extend their sales reach. Some

### Assessment Check

1. Define *retailer*.
2. What are the elements of a retailer's marketing strategy?

## PortionPac Makes More By Selling Less

Founded in 1964, Chicago-based PortionPac is committed to its business model of selling less. PortionPac manufactures cleaning products for commercial use. It sells its cleaning systems of environmentally friendly cleaning solutions in concentrated premeasured "doses" to ensure accurate and controlled use. Instead of producing cleaning solutions in large bottles that contain water as an ingredient, PortionPac delivers concentrated solutions in smaller bottles with instructions for dilution. Customers reuse the original bottle, refilling it each time with a packet of cleaning solution.

The company believes using less of a product is akin to recycling, and it has won several green business awards for its business practices, and sustainability awards for 13 of its 22 products. PortionPac customers—school districts, office managers, health care facilities, and state agencies—like the company's philosophy. They save money and minimize the health hazards associated with cleaning products. While

PortionPac currently sells only to organizations, the firm's long-term strategy includes a plan for retail sales.

### Questions for Critical Thinking

1. How does PortionPac's practice of selling a product in small, premeasured doses contribute to its product strategy?
2. What issues should PortionPac consider before making the decision to sell in the retail market?

**Sources:** Company website, [www.portionpaccorp.com](http://www.portionpaccorp.com), accessed March 12, 2014; Hosea Sanders, "Less Is More for Green Business," *ABC News*, accessed March 12, 2014, <http://abclocal.com>; Leigh Buchanan, "The Un-Factory," *Inc.*, accessed March 12, 2014, [www.inc.com](http://www.inc.com).

companies employ direct channels to carry intangible goods as well. Based in New York City, Art Meets Commerce uses the Internet and social networking to promote small Broadway and off-Broadway shows with tight marketing budgets. The company posts short videos of its client shows on YouTube and takes advantage of Facebook and Twitter to amplify traditional word-of-mouth publicity. When celebrities see the shows and post favorable tweets, their followers may feel encouraged to see the shows too.<sup>31</sup>

Competitive performance is the fourth key consideration when choosing a distribution channel. A producer loses customers when an intermediary fails to achieve promotion or product delivery. Channels used by established competitors as well as new market entries also can influence decisions. Sometimes a joint venture between competitors can work well. Topshop, a trendy UK-based multinational retailer, has partnered with Nordstrom to sell clothing, shoes, and cosmetics through the department store as a store-within-a-store concept. There will be close to 70 Topshop stores within Nordstrom in key markets over the next several years. Topshop management cites Nordstrom's multichannel retail presence as the reason for the partnership.<sup>32</sup>

## Selecting Distribution Intensity

A second key distribution decision involves *distribution intensity*—the number of intermediaries or outlets through which a manufacturer distributes its goods. Only one BMW dealership may be operating in your immediate area, but you can find Coca-Cola everywhere—in supermarkets, convenience stores, gas stations, vending machines, and restaurants. BMW has chosen a different level of distribution intensity than that used for Coca-Cola. In general, market coverage varies along a continuum with three different intensity levels:

1. *Intensive distribution* involves placing a firm's products in nearly every available outlet. Generally, intensive distribution suits low-priced convenience goods such as milk, newspapers, and soft drinks. This kind of market saturation requires cooperation by many intermediaries, including wholesalers and retailers, to achieve maximum coverage.
2. *Selective distribution* is a market-coverage strategy in which a manufacturer selects only a limited number of retailers to distribute its product lines. Selective distribution can reduce total marketing costs and establish strong working relationships within the channel.

3. *Exclusive distribution*, at the other end of the continuum from intensive distribution, limits market coverage in a specific geographical region. The approach suits relatively expensive specialty products such as Rolex watches. Retailers are carefully selected to enhance the product's image to the market and to ensure that well-trained personnel will contribute to customer satisfaction. Although producers may sacrifice some market coverage by granting an exclusive territory to a single intermediary, the decision usually pays off in developing and maintaining an image of quality and prestige.

When companies are offloading excess inventory, even high-priced retailers may look to discounters to help them clear the merchandise from their warehouses. To satisfy consumers' taste for luxury goods, designer outlet malls offer shoppers a chance to buy status items at lower prices. Chicago Premium Outlets features 120 stores carrying such upscale brands as Michael Kors, Armani Exchange, and Diesel. Similar centers include Desert Hills Premium Outlets in California, Las Vegas Premium Outlets, and Seattle Premium Outlets.<sup>33</sup>

## Logistics and Physical Distribution

A firm's choice of distribution channels creates the final link in the **supply chain**, the complete sequence of suppliers that contribute to creating a good or service and delivering it to business users and final consumers. The supply chain begins when the raw materials used in production are delivered to the producer and continues with the actual production activities that create finished goods. Finally, the finished goods move through the producer's distribution channels to end customers.

The process of coordinating the flow of goods, services, and information among members of the supply chain is called **logistics**. The term originally referred to strategic movements of military troops and supplies. Today, however, it describes all of the business activities involved in the supply chain with the ultimate goal of getting finished goods to customers.

**Physical Distribution** A major focus of logistics management—identified earlier in the chapter as one of the two basic dimensions of distribution strategy—is *physical distribution*, the activities aimed at efficiently moving finished goods from the production line to the consumer or business buyer. As Figure 12.9 shows, physical distribution is a broad concept that includes transportation and numerous other elements that help link buyers and sellers. An effectively managed physical distribution system can increase customer satisfaction by ensuring reliable movements of products through the supply chain. For instance, Walmart studies the speed with which goods can be shelved once they arrive at the store because strategies that look efficient at the warehouse, such as completely filling pallets with goods, can actually be time-consuming or costly in the aisles.

*Radio-frequency identification (RFID)* technology relies on a computer chip implanted somewhere on a product or its packaging that emits a low-frequency radio signal identifying the item. The radio signal doesn't require a line of sight to register on the store's computers the way a bar code does, so a hand-held RFID reader can scan crates and cartons before they are unloaded. Because the chip can store information about the product's progress through the distribution channel, retailers can efficiently manage inventories, maintain stock levels, reduce loss, track stolen goods, and cut costs. The technology is similar to that already used to identify



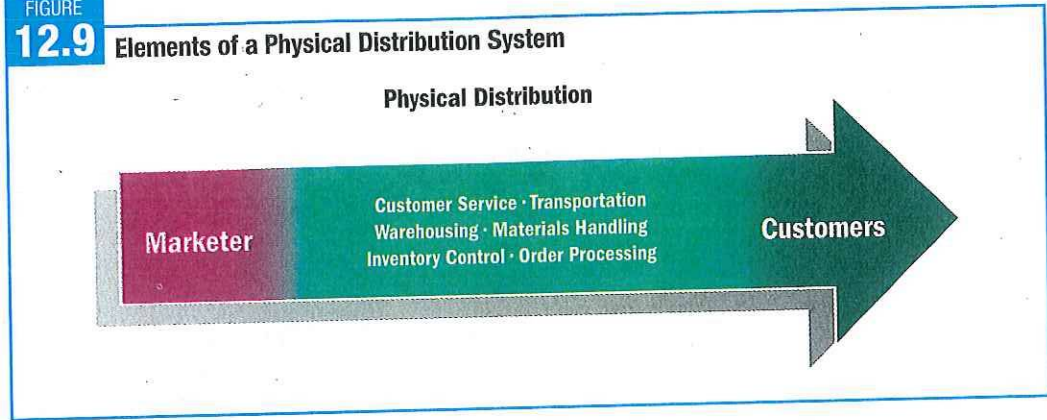
**Selective distribution** is a market-coverage strategy in which a manufacturer selects only a limited number of retailers to distribute its product lines. This strategy is used by Honda to distribute its ATVs.

**supply chain** complete sequence of suppliers that contribute to creating a good or service and delivering it to business users and final consumers.

**logistics** process of coordinating the flow of goods, services, and information among members of the supply chain.

FIGURE  
12.9

Elements of a Physical Distribution System



lost pets and speeding vehicles through toll booths. Walmart, Target, the U.S. Department of Defense, and the German retailer Metro Group already require their suppliers to use RFID technology. The U.S. Army is now using solar power to activate battery-powered RFIDs, which are particularly useful in remote areas. Automakers are also using RFID technology to improve their production processes by tracking parts and other supplies. A new version of the RFID chip can be printed on paper or plastic. RFID technology brings with it privacy and counterfeiting concerns. However, one company has developed a process that uses unique silicon "fingerprints" to generate unclonable RFID chips.<sup>34</sup>

*Warehousing* is the physical distribution activity that involves the storage of products. *Materials handling* is moving items within factories, warehouses, transportation terminals, and stores. Inventory control involves managing inventory costs, such as storage facilities, insurance, taxes, and handling. The physical distribution activity of *order processing* includes preparing orders for shipment and receiving orders when shipments arrive.

The wide use of electronic data interchange (EDI) and the constant pressure on suppliers to improve their response time have led to **vendor-managed inventory**, in which the producer and the retailer agree that the producer (or the wholesaler) will determine how much of a product a buyer needs and automatically ship new supplies when needed.

The form of transportation used to ship products depends primarily on the kind of product, the distance involved, and the cost. The logistics manager can choose from a number of companies and modes of transportation. As Table 12.3 shows, the five major transport modes are—in order of total expenditures—trucks (with about 75 percent of total expenditures), railroads (approximately 12 percent), water carriers (6 percent), air freight (4 percent), and

**vendor-managed inventory** process in which the producer and the retailer agree that the producer (or the wholesaler) will determine how much of a product a buyer needs and automatically ship new supplies when needed.

TABLE

12.3 Comparison of Transportation Modes

MODE	SPEED	DEPENDABILITY IN MEETING SCHEDULES	FREQUENCY OF SHIPMENTS	AVAILABILITY IN DIFFERENT LOCATIONS	FLEXIBILITY IN HANDLING	COST
Truck	Fast	High	High	Very extensive	Average	High
Rail	Average	Average	Low	Low	High	Average
Water	Very slow	Average	Very low	Limited	Very high	Very low
Air	Very fast	High	Average	Average	Low	Very high
Pipeline	Slow	High	High	Very limited	Very Low	Low