

BUSINESS-TO-BUSINESS MARKETING

WEEK 9 DISTRIBUTION STRATEGY IN BUSINESS MARKETS

DR KAMAU JOHN NJAU

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WEEK NINE

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9.1 Introduction

Welcome to week nine lecture! It is my great pleasure to have you in this class. We have now covered 75% of the coursework. Congratulations for making it so far! In the last three lectures, we have been discussing elements of marketing mix theories. We have looked at product, price and promotion. This week we focus on the last element popularly known as place or channels of distribution. This has to do with the movement of goods from manufacturer to final consumer. In business markets the channel of distribution is usually very short and sometimes direct movement from manufacturer to consumer without having to go through any intermediaries.

9.2 Intended Learning Outcomes

At the end of this lecture, we will be able to

1. Describe a channel of distribution.
2. Discuss the strategic issues in distribution.
3. Determine factors that influence development of distribution system.
4. Discuss ways of managing distributors

9.3 Concept of and Strategic Issues in Distribution

Distribution is a key element to the product offering of the business marketer, reflecting the importance of availability and reliability of supply of goods and services. Distribution involves physical flow of stocks of the products between the manufacturers and the end user(logistics) as well as the use of middlemen/intermediary who buy and sell the product along the channel of distribution (marketing channel). Fill and McKee (2011) define marketing channels, also called distribution channels, as one concerned with the interorganizational management of the processes and activities involved in moving products from manufacturers to end-user customers. Ali, (2021) defines channels of distribution as the ways that an organization makes its products and services available to its selected market segments. Another definition states that a marketing channel is a set of interdependent organizations involved in the process of making a product or service available for use or consumption. Rosenbloom (2012) views marketing channel as the external contactual organization that management operates to achieve its distribution objectives. From these definitions we note the following:

- a) A marketing channel is a set of interdependent organizations.
- b) Marketing channel is a process.
- c) The purpose of the marketing channel is making a product or service available for use or consumption.
- d) External: The term external means that the marketing channel exists outside the firm.

- e) Contactual organization: The term contactual organization refers to those firms or parties who are involved in the negotiatory functions as a product or service moves from the producer to its ultimate user.
- f) Operates: The term operates, is meant to suggest involvement by management in the affairs of the channel.
- g) Distribution objectives: The term distribution objectives means that management has certain distribution goals (storage, transportation, market information etc.) in mind. The marketing channel exists as a means of reaching these goals/objectives.

Blythe and Zimmerman (2013) observe the following strategic issues about distribution systems in business markets:

- A good distribution network adds value to the product by increasing utility.
- The channel is the firm's major link to its customers.
- Choice of channel influences the rest of the marketing mix, thus affecting overall strategy.
- Building appropriate channels takes time and commitment, particularly in a global context, so distribution decisions are difficult to change.
- The distribution system determines segmentation and targeting issues in many cases.
- Conflicts may arise between the firm's strategic goals and those of the distributors, particularly in global markets where timescales may be very different.
- Intermediaries in foreign countries may weaken the control of the supplier over the way the product is marketed.

Some of these issues will be discussed later in the lesson. They also observe that distribution creates various utilities in the distribution system. These include Place utility (making the product available in a place which is convenient for the customer), Time utility (making goods available at a time which suits the customer's needs), Ownership utility (Goods are transferred to the purchaser rapidly after ordering, so that the utility purchaser can benefit immediately from ownership). This can involve the supplier and information utility where distributors are able to answer questions directly, providing faster answers than when the utility can be obtained from the supplying company.

9.4 Functions of Distributors

Distributors serve both their customers and manufacturers in various ways. This is meant to create strategic advantages to all players. Ali (2021) and Blythe and Zimmerman (2013) list the following as functions performed by distributors to both their customers and manufacturers.

Distributors serve customers in some or all the following ways:

- Provide fast delivery: Local distributors will hold buffer stocks of products, so they should be able to supply customer needs rapidly.

- Provide a segment-based product assortment: Distributor may well be able to supply a wide range of products which are suitable for the needs of a specific market segment.
- Provide local credit: A distributor may be able to provide credit facilities for firms.
- Provide product information: Local distributors may have knowledge of other products which are useful to the customer, and which are complementary to the firm's products.
- Assist in buying decisions: Distributors are often able to advise on the availability of components or can research availability from among the manufacturers they act for.
- Anticipate needs: Because the distributors know the local market, they are often able to anticipate the needs of their customers and advise manufacturers accordingly.

Similarly, distributors serve manufacturers in the following ways:

- Buy and hold stocks: Distributors are the customers of the manufacturers, since they select, buy, and pay for the goods. The manufacturer is thus relieved of much of the financial and logistical responsibility of holding stocks.
- Combine manufacturers' outputs: Since customers almost always buy from several manufacturers, they will be exposed to the firm's products when they order products from a distributor.
- Share credit risk: Distributors may offer credit to their own customers and carry the risk for this even though the manufacturer will offer credit to the distributor in order to allow them to stock the products, this is a much smaller risk.
- Share selling risk: The distributors have a stake in making the sales, since they have committed to purchasing the products.
- Forecast market needs: Distributors are much closer to the market than the manufacturers are and are therefore in a much better position to forecast demand.
- Provide market information: Likewise, the distributors are a good source of information about the possible new needs of their customers. This can be helpful in new product development.

9.5 Types of Distribution Channels Used by Business Marketer

The B2B channels of distribution can both be direct to the customer or indirect through some type of intermediary. In most cases the business marketer will deliver his products directly to the final consumer and bypass the intermediaries. The main methods of distribution will include the use of direct sales force, trade exhibitions, mail orders and the internet. The use of direct channel of distribution may be associated with several factors (Ali, 2021).

- a) B2B buyer/customer expectations: In many cases the customer will expect to see and discuss product and service needs directly with each supplier. If the benefit offering need is of strategic importance, complex or costly, then the buying company may only be interested in talking directly with the supplier to discuss detailed needs.

- b) Building customer relations: Dealing directly with the buyer can be seen as an important part of the process of communicating and building long-term close relationships with buying companies.
- c) Focused specialized attention: Product benefits can be matched to customer needs using the specialized knowledge and experience that only comes from selling one's own company's products. This is especially relevant when selling complex and high valued products such as financial services, computer systems and capital equipment.
- d) Marketing of services: Because of the personal skills involved, for example in consultancy, it would be difficult though not impossible to operate through an intervening organization.
- e) Guaranteed outlet: Selling direct should ensure a guaranteed outlet for the company's products since there are no intervening bodies between the organization and its customers.
- f) Maintaining control: The major advantage in marketing direct is that full control can be maintained over all elements of the marketing mix.
- g) Building a customer database: Dealing direct allows marketing managers and supplier salespeople to observe and ask questions and so collect data that can then be processed through the MIS and used to dig out valuable information to create more customer value.

9.6 Gaining Competitive Advantage through Channel of Distribution

Channel design and selection is a strategic activity done to meet customer demands and increase the firm's competitive advantage. Rosenbloom (2012) argues that it is only distribution that can give a firm sustainable competitive advantage compared with other elements of marketing mix (price, product, and promotion). This may be attributed to several factors: On product strategy, rapid technology transfer from one company to another and global competition have made it easier for competitors to achieve equality in product design, features, and quality. The ability of any given company to compete in the long run by relying on its products being better or different from other companies has become exceedingly difficult to sustain.

Similarly, gaining a sustainable competitive advantage through pricing strategy is even less feasible than through product strategy. This is because many firms can reduce prices by operating in many/any part of the world especially those countries with cheap labor and raw materials (e.g., China, Africa, South America, and Asia-Pacific countries).

Gaining a sustainable competitive advantage through promotion has also become a precarious strategy. The massive amount of advertising and other forms of promotion to which consumers have been exposed to daily have created an enormous clutter, which reduces the impact of promotional messages. Therefore, holding on to a competitive advantage gained through promotion in the face of such intense clutter has become quite impossible today.

Distribution strategy, however, is able to give a firm a competitive advantage due to the following reasons:

- a) Channel strategy is the long term/long term nature of the channel strategy. Setting up and maintaining superior marketing channels for making products available to consumers usually involves a relatively long-term period to plan and implement.
- b) Channel strategy and channel structure usually requires structure Channel strategy usually requires a structure consisting of organizations and people to implement. The substantial effort and investment to develop this structure makes the competitor think long and hard on whether they would be willing to make the kind of commitment needed to develop a competing channel structure.
- c) Channel strategy is based on relationships and people. Marketing channel is a collection of people interacting with each other in different organizations. The success of the channel strategy and the structure that supports it are directly dependent on how effectively the people in various organizations relate to each other in performing their jobs. Many organizations may not be in a position to deal with people issues (develop good relations) and thus they prefer to focus their attention on product, price and promotional strategies.

9.7 Distribution Channel Strategy

There are basically three channel strategies that a business marketer can choose from. These include extensive (intensive), selective and exclusive. The selection of the market coverage required will influence this choice to a great extent (Ali, 2021).

- a) Extensive market coverage: Extensive market coverage as a strategy looks towards securing product sales to every possible buyer type in the market. It is also referred to as intensive distribution. This could be at national and international level. To make this happen would probably mean using a multi-channel approach. B2B products that might warrant extensive market penetration would include such things as computer software. This strategy is, however, not very popular in business markets because of the massive capital investment required.
- b) Selective coverage strategy: The business marketer selects a few intermediaries to distribute the products to the target customer. This gives the marketer the chance to develop a good working relation with the selected intermediaries, have better control, incur less costs and finally expect a better than average selling effort. This strategy is popular in business markets as it allows relationship building which is a major characteristic of business market.
- c) Exclusive coverage: Exclusive market coverage consists of distributing to or through only one or a very small number of buyers. This might be because of exclusivity contracts being agreed or because there are only a few buyers in the market for the supplier's product or service. Automotive industry operates through this strategy in developing countries like Kenya.

9.8 Factors that Influence Selection of the Type of Distribution Channel in Business Markets

Ali (2021) and Czinkota and Ronkainen, 2010 agree on factors that influence channel choice to include the following:

- a) Buyer product/service needs: Satisfying customers is the major goal of business marketer. The tastes and preferences of the customer must be the first consideration. This must be done cost effectively. As with most B2B marketing decisions it is important that buyer needs are considered. It might be the case that a buyer insists on having selective or exclusive distribution, large organizations want personal service and a direct approach.
- b) Organizational mission and objectives: The second factor considered is the organization mission, vision and objectives. The distribution strategy must be aligned with the overall marketing strategy and the corporate strategy. If the marketing objective is for extensive coverage, then intermediaries might be used. If speed of coverage, both at a national and international level is required, then a form of franchising might be the most effective. The firm must also examine its resources to determine what it is able to do and what is beyond its reach. Available resources will inform decision on whether to use selective or exclusive channel of distribution.
- c) Culture: Culture can have an important effect upon channel design as well. In some countries, an established way of distributing all products has grown up and become the norm. In some markets, there is vertical integration whereby distribution firms are owned by manufacturers or close relationships have been established. Changing these culturally driven distribution patterns will be difficult (Blythe and Zimmerman, 2013)
- d) Industry structure: Industry norms will also be a major determinant of the type of channel selected. Supplier buyer structures and acceptable ways of working with one another will already be in place and the new entrant might find this very difficult to change and will thus have to abide by these practices.
- e) Role of the competition: The market leader will set the pace for other distributors. His decisions will have a profound effect on the type of channel that a new entrant will have to adopt or develop. The competing supplier could develop contracts with major buyers in return for limiting supplies to others. They could load the customer with goods and thus prevent the purchase of the new item. They could lower the prices or offer extra services when new entrant surfaces.
- f) The availability of qualified distributors is another key factor considered. For technical products, the firm may have to use exclusive distribution as it has to do a lot of training and follow-up.
- g) Products and services offered: Some B2B services, such as business consultants or advertising agencies, leave very little option but to be delivered direct while others such as cleaning or waste management can take place through intermediaries. One product

type, component parts, can be offered on the internet, while another type, capital equipment, would demand direct person-to-person discussion and negotiation.

Perry (1989) note that most firms use multiple distribution channels to reach customers in order to deliver the required satisfaction to any particular customer segment. This can be helpful in meeting different market segments but has the major drawback that the various distributors may resent the existence of the others and may feel that their own positions are being undermined. Care needs to be taken to ensure that the segments really are clearly defined, and overlap is kept to a minimum. The choice of distributors in a specific market may be guided by the following considerations (Arnold, 2000):

- Select distributors – don't let them select you.
- Find distributors with market development capabilities.
- Treat distributors as long-term partners.
- Fully resource the market entry effort.
- Keep control of marketing strategy.
- Require detailed market and financial data.

It is not enough to select distributors and hope to work with them. The business marketer must also motivate them. Blythe and Zimmerman (2013) suggest the following strategies for selecting and motivating B2B intermediaries.

- Ask potential customers to recommend possible distributors. This will help ensure a smooth logistical flow.
- Determine which distributor best fits the company's overall strategy. The goals and strategic aspirations of the distributor should be close to those of the company, so that the relationship remains close.
- Visit the distributor regularly. This helps to build the relationship by keeping the company up to date with developments in the market and allows the distributor to raise issues.
- Visit the overseas customers with the distributor. Provided the distributor or agent has no objection, joint visits to the overseas customers also help to support the distributor and build the relationship.
- Provide training and support. If the distributor's staff can be trained at the company's premises this will make a major difference to the smooth running of the relationship, since the distributor will make useful contacts for informal resolution or minor problems and will develop a better understanding of the corporate culture.

9.9 Typical Problem Areas in the Manufacturer-Intermediary Relationships

1. **Direct account:** A perennial source of strain in supplier's distributor relationship is the manufacturers' establishment of direct accounts with end user customers. It happens when

a major customer often one with multiple buying locations threatens to do business with another manufacturer unless the industrial marketer supplies the products or services directly. In other cases, the customer may demand direct distribution because he wants better technical advice or recognition and higher service level. Since these large accounts represent a major portion of the distributor's volume the solution is often a difficult one. Complicated commission or fee arrangements for distributor service on direct accounts may be negotiated.

2. **Distributor Management:** The distributor owner manager is often not a well-trained professional manager. As a successful businessman, he may reach a point where he has little interest in opening new accounts, soliciting new accounts, or developing new lines. These distributors lack growth motivation and are a source of frustration for manufacturers wishing to improve their competitive position. A related issue is the problem of management succession. The retirement or death of distribution manager can seriously reduce the effectiveness of the distributorship. Suppliers attempt to cope with this problem by working with the distributor to ensure smooth transition and by incorporating contract provisions for terminating relationships if there is a change in ownership.
3. **Inventory levels:** Manufacturers usually employ a great deal of persuasion to get distributors to increase inventory level. An increase often seen by manufacturers as essential to effective customer service. One method of persuasion is to increase the distributors' profit margins. The manufacturers can also finance the distributor's inventory expansion by delayed billing or even giving cash loans. The manufacturer sales representative can show how larger inventories can improve the distributors' profitability. However, industrial marketers may find the process of developing these analyses lengthy because of the distributor's reluctance to share cost data or general lack of data.
4. **Second product lines:** Manufacturers prefer their distributor not to carry competing product lines. On the other hand, the distributor often wants a second line to have a broader price range or a wider variety of product types. One incentive used to encourage the distributor to concentrate on purchases in a single line is quantity discount on purchases. The presence of the second line is especially annoying to those firms that make major commitment to and major investments in their distributors such as training programmes, market development expenses etc. Second lines frustrate the achievement of these objectives.
5. **Adding distributors and overlapping territories:** As markets and distributors change, existing distributor coverage patterns may prove inadequate. When it is determined that the existing distributor is not capable of covering its assigned territory a new distributor may be added. This will lead to overlapping of territories. Considerable controversy can arise from such arrangements and most distributors will seek to avoid them. When such arrangements are made the manufacturer runs the risk of losing the older distributor, a risk he often deliberately takes.
6. **Service and technical assistance:** These are big factors in the business market and out of necessity must be extended by channel members. The marketing manager may be forced to use a direct channel strategy because he cannot find intermediaries who want to provide the

service and technical assistance or because of difficulty in finding an intermediary capable of providing such a service. If a product line requires significant service and technical assistance, then marketing management must ensure that the desired service is available and is equal to or better than the service offered by other manufacturers and intermediaries competing for the same market.

7. **Marketing information and feedback:** The expectation or requirement by the manufacturer that marketing intermediaries provide marketing information and feedback could be a source of conflict. Some marketing intermediaries, particularly those who are paid on commission may find it hard to spend some of their time gathering marketing information and feedback rather than selling. Insistence by the manufacturers for such information service is a source of conflict. These potential problems must be discussed, settled and agreed upon prior to the execution of the basic channel decision.
8. **Training and support services:** Most intermediaries expect a lot of assistance from manufacturers. Some of the assistance includes merchandizing assistance, advertising and other promotional assistance, sales training etc. Sales training is especially important because the sales personnel working for the intermediary tend to favor manufacturers product lines for which they are most knowledgeable and in which they are most comfortable. The kind of training and support services that B2B marketing management should adopt is an area of possible conflict between the manufacturer and the intermediary. These areas can and often lead to channel conflict if they are not effectively addressed early in the channel selection process.
9. **Channel conflicts:** Conflict exists when a member of the marketing channel perceives another member's actions to be impeding the attainment of his or her goals. Conflict may arise out of role incongruities (inconsistency, inappropriate), resource scarcities, perceptual differences, expectational differences., decision domain disagreements, goal incompatibilities and communication difficulties among others (Rosenbloom, 2004). The business marketer can resolve these conflicts through: channel wide committees, joint goals setting by the committee (or some other vehicle), having a distribution executive position, arbitration , special organizations for gathering information, application of organization development (od) concepts and methods to the resolution of conflict in the marketing channel, behavioral laboratory research, participative leadership styles and through direct interaction between channel members that focuses on joint problem solving.
10. **Effect of the internet.** The Internet has had a great effect on distribution strategies applied by business marketer. On one side, firms have been able to develop electronic distribution channels that have impacted them very positively. However, in certain cases conflicts have arisen as firms use the internet to bypass intermediaries and sell directly to the final consumer.

9.10 Review Questions

1. Critically examine the functions of a business marketer distributor
2. What types of conflict are most likely in distribution networks and how can they be resolved?
3. Explain how a business marketer can gain a competitive advantage through distribution strategy?
4. What are the main features of efficient customer response?
5. Negotiation implies power. What power might a distributor have when dealing with a supplier?

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