high interest rates. With such high inflation, it would have been understandable if Maruti had priced their new Alto model 10 per cent higher than the previous one. Instead it made headlines by launching at 2 per cent below – even though the specification had been upgraded. Prices for the Alto started at £2,500, with £3,400 for the highest spec.

Figure 12.6 The Maruti Alto 800

On the morning of the tenth day, Maruti Suzuki's Managing Executive Officer for marketing and sales announced: 'We crossed all three targets. We launched in 821 cities and 1,130 outlets.' That morning, the new Alto had crossed 27,000 bookings and 10,200 deliveries.

Getting the pricing right was critical because Maruti, for so long the dominant force in India with a 45 per cent market share, had lost three percentage points in the previous year. This was partly because the Alto model, which had once sold 35,000 cars a month, had seen its sales slip to 18,000 by early 2012. And with small cars such as this taking 70 per cent of the Indian car market, the Alto launch was vital.

When asked whether this pricing might spark a price war, Maruti suggested that it was simply making use of its competitive advantage. An independent auto analyst confirmed that 'Maruti enjoys huge economies of scale, even at lower margins. No other company can do that.'

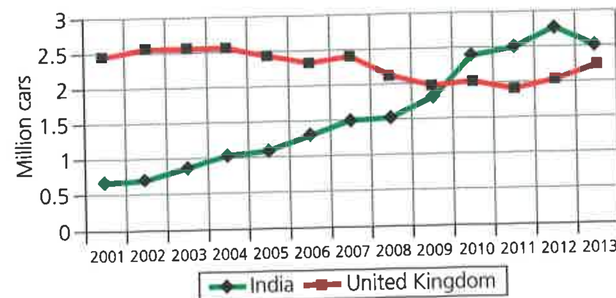

Figure 12.7 Market for new cars: India v. UK (source: www.oica.net)

The reduced price is intensifying competition in the market in what Abdul Majeed, Partner at PwC, calls the 'volume game'. He explains that Maruti's pricing may initially spark a price war, but it is important to develop the market three or four years down the line, as it would generate high volumes. 'If you can't sell 200,000 to 300,000 cars, you can't make money', he says. In the short term, margins will feel the pinch, but in the long run the move will be beneficial, as small cars still make up 70 per cent of the Indian car market. 'Car makers will have to take the risk', says Majeed.

A year on, in September 2013, the Alto was India's top-selling car and Maruti's market share had recovered from 41 to 43.5 per cent since the same month in 2012.

Questions (25 marks, 30 minutes)

1. Examine one way in which market trends in new car sales in India (see Figure 12.7) might have influenced the pricing decision for the new Alto 800. (5)
2. Assess two possible implications for the Indian car market if Maruti's pricing does 'spark a price war'. (8)
3. Assess whether Maruti was wise to adopt a penetration pricing strategy for its new Alto model. (12)

Extended writing

1. At a supermarket, a Mars Bar is priced at 79p and a pack of three at £1. From the point of view of the consumer and the producer, evaluate whether both these prices can be right. (20)
2. Research the launch prices and sales of Sony's PS4 and the Microsoft One in 2013/2014. Evaluate whether pricing was the key reason for Sony's sales success. (20)

13 Distribution

> **Definition**
>
> Distribution is about availability (how to get the product to the right place for customers to make their purchases). It includes physical or online distribution availability and visibility.

Linked to: The market, Ch 2; Branding and promotion, Ch 11; Pricing strategies, Ch 12; Marketing strategy, Ch 15.

13.1 Introduction to distribution

Within the framework of the marketing mix, distribution is known as 'place'. This can be unhelpful because it suggests that manufacturers can place their products where they like (for example, at the entrance of a Waitrose store). The real world is not like that. Obtaining distribution in Waitrose is a dream for most small producers, and a very hard dream to turn into reality. For new firms in particular, place is the toughest of the 4Ps.

Persuading retailers to stock a product is never easy. For the retailer, the key issues are **opportunity cost** and risk. As shelf space is limited, stocking a particular chocolate bar probably means scrapping another; but which one should the retailer choose? What revenue will be lost? The other consideration is risk. A new, low-calorie chocolate bar may be a slimmer's delight, but high initial sales might slip, leaving the shopkeeper with boxes of slow-moving stock.

For the manufacturer, an important aspect of distribution strategy is whether your product is a planned purchase or whether it is bought on impulse. **Impulse purchasing** implies the need to maximise distribution – and to make sure of great displays, such as close to the till. So if you are selling Tic Tac mints or strawberry lip balm, you incentivise the retailers by offering them fat profit margins, and help them by giving out display units to show off the product to its best advantage. With a planned purchase, distribution and display become less important because the customer will come to look for the item they want. Therefore, the supplier doesn't need to offer such generous retail profit margins; in a sense, the product is selling itself. A good example might be a Flymo lawnmower or BaByliss hair straighteners.

13.2 Choosing appropriate distributors

When a new business wants to launch its first product, a key question to consider is the distribution channel: in other words, how the product passes from producer to consumer. Should the product be sold directly, as with pick-your-own strawberries? Or via a **wholesaler**, then a retailer, as with crisps bought from your local shop? This decision will affect every aspect of the business in the future, especially its profit.

Manufacturers must decide on the right outlets for their own product. If Chanel chooses to launch a new perfume, 'Alexa', backed by Alexa Chan, priced at £69.99, controlling distribution is vital. The company wants it to be sold in a smart location where elegant sales staff can persuade customers of its wonderful scent and gorgeous packaging. If Superdrug or Morrisons want to stock the brand, Chanel will try hard to find reasons to say no.

Yet the control is often in the hands not of the producer, but of the retailer. If you come up with a wonderful idea for a brand new ice cream, how would you get distribution for it? The freezers in corner shops are usually owned by Wall's and Mars, so they frown upon independent products being stocked in 'their' space. To the retailer, every foot of shop floor space has an actual cost (the rental value) and an opportunity cost (the cost of missing out on the profits that could be generated

by selling other goods). In effect, then, your brand new ice cream is likely to stay on the drawing board because obtaining distribution will be too large a **barrier to entry** to this market.

'Establish channels for different target markets and aim for efficiency, control and adaptability.'

Philip Kotler, marketing guru

13.3 Distribution channels

There are five main channels of distribution.

Traditional physical channel

Small producers find it hard to achieve distribution in big chains such as B&Q or Sainsbury's, so they usually sell to wholesalers who, in turn, sell to small independent shops. The profit mark-up applied by the 'middleman' adds to the final retail price, but a small producer cannot afford to deliver individually to lots of small shops.

Direct to retailer

Larger producers cut out the middleman (the wholesaler) and sell directly to retail chains, from Boots to Tesco. This is more cost-effective, but exposes the seller to tough negotiation from the retail chains on prices and credit terms. Large retailers also demand that manufacturers pay for special offers and price promotions, from BOGOFs (buy one get one free) to boxes of Maltesers for £1.

Be your own retailer

Although Apple, Chanel and Burberry are known for iconic product design, they also love to control their distribution, display and sales by running their own shops. In China, Burberry decided to buy out its retail partner so that it could get closer to the market.

'Get closer than ever to your customers. So close that you tell them what they need well before they realise it themselves.'

Steve Jobs, founder of Apple Inc.

Direct online

Using this channel of distribution, the producer sells directly to the consumer. Manufacturers can do this through mail order or – far more likely today – through a website. This ensures that the producer keeps 100 per cent of the product's selling price. The benefit of the direct distribution channel is that the producer's higher profits can finance more spending on advertising, website development or new product development.

Online retail

Small firms often lack the ability and/or the finance to build a successful **e-commerce** sales platform. So it can make sense to piggy-back on an established platform such as eBay in the West or the amazingly successful TaoBao in China. TaoBao has more than two million businesses using the site to sell to the hundreds of millions of China's online shoppers. TaoBao is one part of Jack Ma's Alibaba business that had sales, in 2014, of $420 billion – dwarfing Amazon and eBay combined.

Real business

In 2013, internet sales of groceries rose by 19 per cent according to market research agency Kantar. By comparison, sales from grocery shops only rose by 2 per cent. This trend towards online shopping has been developing for ten years and may be accelerating. In the four days leading up to Christmas 2013, 15 per cent of all grocery sales were online. No wonder that Morrisons, the only UK grocery chain with no online presence, was rapidly losing market share. In (belated) response, Morrisons started its first online deliveries in a test market in Warwickshire in January 2014. The same company proved extraordinarily slow to spot the success of smaller, urban grocery outlets such as Tesco Metro.

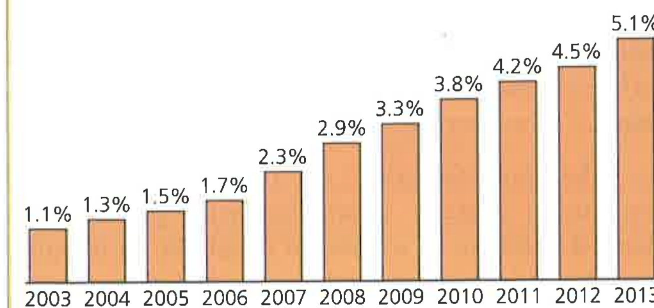

Figure 13.1 E-commerce share of UK grocery spending, 2003-2013 (source: Kantar Worldpanel, 'Shopping for Groceries', 6 August 2013)

13.4 Changes in distribution to reflect social trends

Online distribution

A company such as Supergroup plc (owner of the Superdry brand) has retail outlets in many countries but not all. They might sell 100 jackets to a South American wholesaler, who then sells them to shops in Rio and Caracas. If the retail price is to be the equivalent of £100, they may need to sell to the wholesaler for £35. This will create the chain:

Figure 13.2 Prices charged at each stage of the distribution chain

So although it is a Superdry product with the intellectual property owned by Supergroup plc, the company only gets £35 per jacket, while the wholesaler makes £15 and the retailer gets £50 (clothing retailers usually work on a 100 per cent mark-up). How much better, then, for Supergroup if a shopper in Rio simply buys the item from the Superdry website. They can get £100 for the jacket instead of £35.

From the consumer's point of view, there are also huge benefits from purchasing online. Most shops stock a relatively narrow range of sizes, aimed at the 'average' 65 per cent of the market. People bigger or smaller than that will struggle in the high street. This is understandable because the wider the range of sizes you keep on the shelves or in the stockroom, the fewer the number of items you'll have the room to display or store: a classic issue of opportunity cost. For an online seller with a warehouse in a cheap-rent part of town, it's not an issue. The same goes for customers with a quirky taste in music, or books or vintage clothes: these days there is a **long tail** of small firms, each specialising in minority tastes too small to make a profit in the high street.

'Distribution has really changed. You can make a record with a laptop in the morning and have it up on YouTube in the afternoon and be a star overnight.'

Bonnie Raitt, singer

Changing from product to service

Is there a difference between distributing a service compared with distributing a product? Largely the answer is no. Your grandparents bought insurance from 'The Man from the Pru', who knocked on doors monthly to collect insurance premiums from clients. Your parents (when younger) bought insurance directly over the phone or by going into a Prudential Insurance high street shop. Today they buy insurance from a combination of online (direct with the company or via the 'retailers': Moneysupermarket.com, Comparethemarket.com and so on) and by phone. In other words, selling services has been affected by modern online trends as much as anything else.

Of course there are some services that may never be affected significantly by online distribution because they are about physical experiences. So it's hard to see how clubbing, staying at a hotel, going on holiday or taking your partner to a restaurant can change much over time. The only change is to the way such experiences are booked, and much of that is already online.

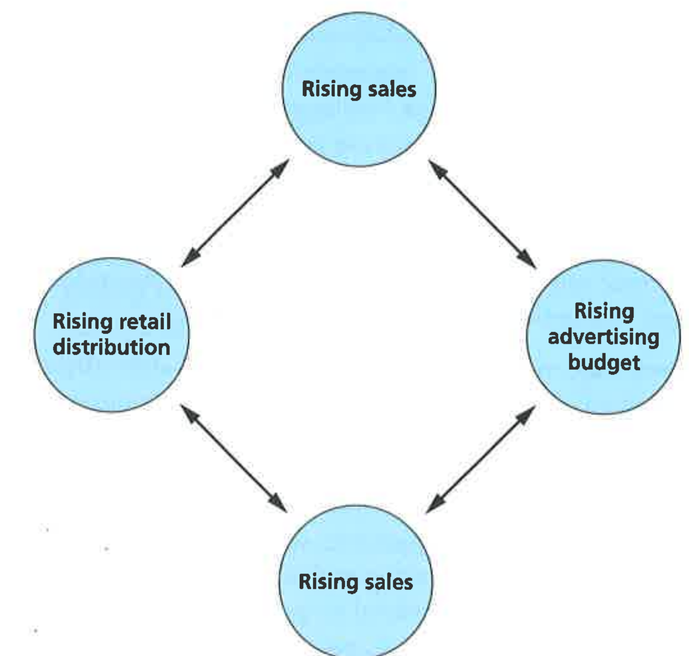

Figure 13.3 Logic chain: distribution and the virtuous circle

Five whys and a how

Questions	Answers
Why is it hard for a new company to achieve retail distribution for its products?	No retailers have gaps in their shelves, so accepting a new product means dropping an existing one, risking lost revenue.
Why might it be a mistake for a company to seek 100 per cent distribution for its products?	Long-term sales success relies on having a clear, positive image. Nike doesn't want its latest sportswear sold cheaply at Sports Direct; the short-term sales would be at a long-term cost.
Why do most modern firms pursue multi-channel distribution strategies?	Because today's consumers sometimes want traditional, browsing shopping and sometimes want speedy online purchasing from home.
Why may it be a profitable strategy for a producer to offer extra-high profit margins to retailers?	The bigger the slice of a sale taken by the retailer, the less there is for the producer, but high margins attract higher distribution levels and better display at the point-of-sale (e.g. right by the cash till); so sales volumes are boosted.
Why are online grocery sales still so low (with a market share of well below 10 per cent)?	The problem is probably not on the supply side, as Ocado, Sainsbury's and others are efficient and easy-to-use; it must be that most people still want to go and look and feel before buying.
How might a brand new producer of hair straighteners gain retail distribution?	They would have to persuade shops that there is something innovative about the product and therefore worth stocking (or offer higher profit margins than rivals).

13.5 Distribution – evaluation

Place is of particular importance in business because it can represent a major barrier to entry, especially for new small firms. The practical constraint on the amount of shop-floor space makes it hard for new products to gain acceptance, unless they are genuinely innovative. Therefore, existing producers of branded goods can become quite complacent, with little serious threat from new competition.

Famously, in the nineteenth century, Ralph Waldo Emerson said: 'If a man can make a better mousetrap, though he builds his house in the woods the world will make a beaten path to his door.' In other words, if the product is good enough, customers will come and find you. In a modern competitive world, though, the vast majority of products are not that exciting or different from others. So it is crucial to provide customers with convenient access to your products and/or shelf space in an eye-catching location. Getting products into the right place should not be taken for granted.

Key terms

Barrier to entry: factors that make it hard for new firms to break into an existing market (for example, strong brand loyalty to the current market leaders).

E-commerce: literally, electronic commerce – carried out online.

Impulse purchasing: buying in an unplanned way (for example, going to a shop to buy a paper, but coming out with a Mars bar and a Diet Coke).

Long tail: the huge number of tiny businesses appealing to minority tastes that can find a profitable existence online because they can target the whole planet, not just the local area.

Opportunity cost: the cost of missing out on the next best alternative when making a decision (or when committing resources).

Wholesaler: the middleman between the producer and retailers, who breaks bulk down from container lorry-loads into manageable parcels, such as a case of 12.

13.6 Workbook

Revision questions

(30 marks; 30 minutes)

1 Outline the meaning of the term 'place'. (2)

2 Explain in your own words why it may be that 'place is the toughest of the 4Ps'. (4)

3 Outline what you think are appropriate distribution channels for:

a) a new F1 racing game for mobiles and tablets

b) a new adventure holiday company focusing on wealthy 19–32 year olds. (6)

4 Retailers such as WHSmith charge manufacturers a rent on prime store space, such as the shelving near to the cash tills.

a) How might a firm work out whether it is worthwhile to pay the extra? (3)

b) Why may new small firms find it hard to pay rents such as these? (3)

5 Explain in your own words what is meant by the phrase 'a better mousetrap'. (3)

6 Outline three reasons for the success of direct online distribution in recent years. (5)

7 Explain why modern businesses seek 'multi-channel distribution'. (4)

Data response 1

Getting distribution right

Secondary data can be hugely helpful to new companies looking for distribution of their first products. A company launching the first 'Kitten Milk' product has to decide where to focus its efforts. Where does cat food sell? Is it in pet shops, in corner shops or in supermarkets? Desk research company BMRB reports that, whereas 65 per cent of dog owners shop for pet food at supermarkets, 81 per cent of cat owners do the same. A different source (TNS) puts the cat food market size at £829 million. TNS also shows that the market is rising in value by around 2.5 per cent a year.

Further secondary data shows that pet food shoppers spend only 80 per cent of the amount they intend to when they go to a shop. This is because poor distribution stops them finding what they want. And 50 per cent of shoppers will not return to the same store after being let down twice by poor availability.

Questions (20 marks; 25 minutes)

1 What is meant by the term 'market size'? (2)

2 a) The year 1 sales target for Kitten Milk is £5 million. Calculate what share of the total market for cat food that would represent. (4)

b) Explain why it might be hard to persuade retailers to stock a product with that level of market share. (4)

3 The marketing manager for Kitten Milk is planning to focus distribution efforts on getting the brand placed in pet shops. Assess whether this seems wise. (10)

Data response 2

An arm's length from desire

From its origins in America in 1886, Coca-Cola has been a marketing phenomenon. It was the world's first truly global brand; it virtually invented the red, jolly Christmas Santa, and its bottle design (1919) was the first great piece of packaging design.

Yet a 1950 *Time* magazine article quoted another piece of marketing genius: 'Always within an arm's length of desire.' The marketing experts at Atlanta (home of Coca-Cola) realised nearly 60 years ago that sales of Coca-Cola were limited mainly by availability. Especially on a hot day, a cold Coke would be desired by almost anyone who had it an arm's length away.

This led the company to develop a distribution strategy based on maximum availability, maximum in-store visibility and therefore maximum impulse purchase.

From then on, Coca-Cola targeted four main types of distribution:

1 in supermarkets and grocers

2 in any kiosk in a location based on entertainment (for example, a bowling alley or a cinema)

3 in any canteen, bar or restaurant

4 in a vending machine near you; automatic vending proved one of the most valuable ways of building the market until worries about healthy

Five whys and a how

Questions	Answers
Why is it hard for a new company to achieve retail distribution for its products?	No retailers have gaps in their shelves, so accepting a new product means dropping an existing one, risking lost revenue.
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4 in a vending machine near you; automatic vending proved one of the most valuable ways of building the market until worries about healthy

eating saw them banned in schools; a vending machine is the ultimate barrier to entry.

Overall, though, the Coca-Cola approach to distribution set out in 1950 is what most companies still try to do today.

Questions (30 marks; 35 minutes)

1 What is meant by the term 'distribution'? (2)

2 Explain how a vending machine can be a 'barrier to entry' to new competitors. (4)

3 Explain what the text means by the difference between 'maximum availability' and 'maximum visibility'. (4)

4 From all that you know about today's Coke, Diet Coke and Coke Zero, evaluate whether Coca-Cola's distribution strategy was the single most important factor in the firm's marketing success. (20)

Extended writing

1 Evaluate the proposition that 'internet retailing will mean the death of the high street'. (20)

2 You have just developed a new console game that combines the appeal of Candy Crush with the force of Call of Duty. Evaluate how to achieve strong enough distribution to make this product a hit in the UK. (20)

14 Product life cycle and portfolio

Definition

The product life cycle is the theory that all products follow a similar pattern over time, of development, birth, growth, maturity and decline. The product portfolio places brands into a matrix based on market share and market growth.

Linked to: Market research, Ch 3; Pricing strategies, Ch 12; The market, Ch 2; Capacity utilisation, Ch 42.

14.1 What is the product life cycle?

The product life cycle shows the sales of a product over time. When a new product is first launched, sales will usually be slow. This is because the product is not yet known or proven in the market. Retailers may be reluctant to stock the product because it means giving up valuable shelf space to products that may or may not sell. Customers may also be hesitant, waiting until someone else has tried it before they purchase it themselves.

If the product does succeed, then it enters the growth phase of the product life cycle, with new customers buying and existing customers making repeat purchases. However, at some point sales are likely to stabilise; this is known as the maturity phase. This slowing down of the growth of sales might be because competitors have introduced similar products or because the market has now become saturated. Everyone who wants one has bought one, so sales fall back to replacement purchases only.

At some point sales are likely to decline, perhaps because customer tastes have become more sophisticated. So orange squash sales decline as people buy more fresh orange juice. A decline in sales may also be because competitors have launched a more successful model or the original creator has improved its own product; for example, the iPad drawing sales from the iPhone.

The five key stages of a product's life cycle are known as: development, introduction, growth, maturity and decline. These can be illustrated on a product life cycle diagram. The typical stages in a product's life are shown in Figure 14.1.

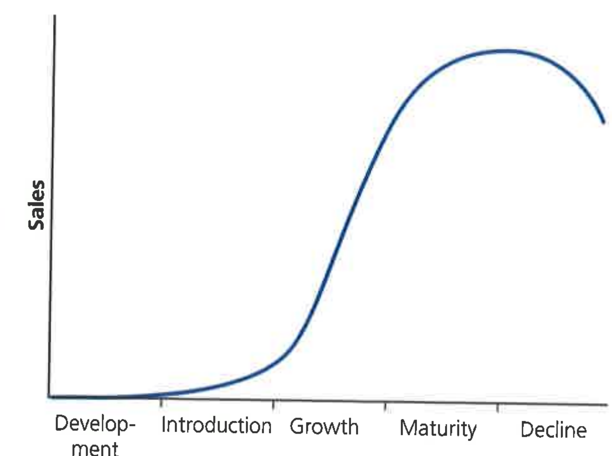

Figure 14.1 The product life cycle

14.2 What is the value of the product life cycle?

The product life cycle model helps managers to plan their marketing activities. Marketing managers will need to adjust their marketing mix at different stages of the product life cycle, as outlined below.

- In the introduction phase, the promotion may focus on making customers aware that a new product exists; in the maturity phase, it may focus more on highlighting the difference between your product and competitors that have arrived since its introduction.
- At the beginning of the life cycle, a technologically advanced product may be launched with a high price (think of the iPhone); over time the price may fall as