The cronut craze started in mid-May 2013 when bloggers spread the word about the new combination of donut and croissant at this new bakery. Baker-proprietor Ansel makes the flaky layers of a croissant into a ring shape, deep-fries it, then inserts patisserie cream and tops it off with a swirl of icing. Only 200 are made each day, so they sell out by just after 9.00 each morning. Ansel is trying to find a way to manufacture the cronut to meet demand throughout America. Until he does, the queues will persist.

Remarkably, Ansel has been allowed to trademark the name 'cronut', so although he has many imitators already, the 'doissant', the 'zonut' and the 'dosant' have not been able to convince customers that they are the real thing. This has helped him keep the price at more than double the typical price for a New York pastry.

But are the cronuts any good? College students Danielle Owens and Camara Lewis clearly think so, as they've succeeded six times in queueing and eating the cakes. Each month, Dominique Ansel changes the flavour of the pastry crème filling, to encourage repeat purchase. *The Financial Times* reports that 'The deeply buttery pastry is wonderful, crispy and stacked high with greedy, messy-to-eat layers; the lemon-maple cream is pleasingly sickly.' Visitors from around the US make a beeline for the bakery. Ansel has made a brilliant start so far to his business career. But can he turn the cronut into a nationwide success?

Questions

(30 marks; 30 minutes)

1 Explain any evidence here of viral marketing. (4)

2 Assess the importance of social media in the development of the cronut business. (10)

3 Examine three factors that may determine whether Ansel succeeds in making cronuts a successful brand in the long term. Explain which one you believe will prove the most important. (16)

Extended writing

1 Evaluate whether it is time for a brand such as Cadbury Dairy Milk to abandon traditional TV and press media to spend their whole advertising budget on digital and social media. (20)

2 Heinz has found that its famous brand limits it from expanding its product portfolio, as people won't accept Heinz chilled ready meals or Heinz pizzas. Evaluate how it might try to overcome this consumer resistance. (20)

12 Pricing strategies

Definition

Price is the amount paid by the customer for a good or service. A pricing strategy is the plan for setting a product's price for the medium-to-long term.

Linked to: Market research Ch 3; Market positioning, Ch 4; Price elasticity of demand, Ch 8; Marketing strategy, Ch 15.

12.1 How important are decisions about price?

Price is one of the main links between the customer (demand) and the producer (supply). It gives messages to consumers about product quality and is fundamental to a firm's revenues and profit margins. As part of the marketing mix, it is fundamental to most consumer buying decisions. The importance of price to the customer will depend on several factors, as discussed below.

Customer sensitivity to price

Consumers have an idea of the correct price for a product (see Figure 12.1). They balance price with other considerations. These include the factors set out below.

The quality of the product

Products seen as having higher quality can carry a price premium; this may be real or perceived quality.

How much consumers want the product

All purchases are personal; customers will pay more for goods they need or want.

Consumers' income

Customers buy products within their income range; consumers with more disposable income are less concerned about price. Uncertainty about future income will have the same effect as lower income. If interest rates are high, hard-pressed home-buyers will be much more sensitive to price; they need to save money and so they check prices more carefully and avoid high-priced items.

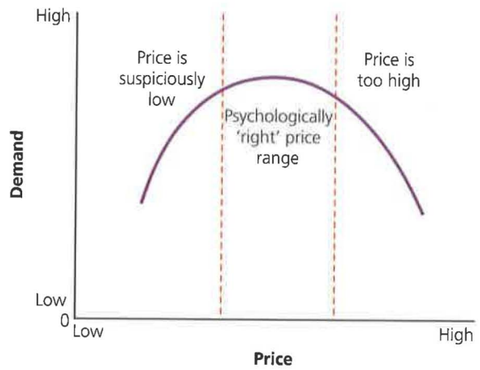

Figure 12.1 The 'right' price

Price sensitive	Not very price sensitive
No-frills air travel	Business-class air travel
Fiat and Ford cars	BMW and Mercedes cars
Children's white school shirts	Babies' disposable nappies
Monday-night cinema tickets	Saturday-night cinema tickets

Table 12.1 Price sensitivity in practice

12.2 Types of pricing strategy

A pricing strategy is a company's plan for setting its prices over the medium-to-long term. In other words, it is not about deals such as 'This week's special: 40 per cent off!' Short-term offers are known as **pricing tactics**.

For new products, firms must choose between two main pricing strategies:

1 Skimming

2 Penetration.

The main advantages of each are shown in Table 12.2.

Skimming

This is used when the product is innovative. As the product is new, there will be no competition. The price can therefore be set at a high level. Customers interested in the new product will pay this high price. The business recovers some of the development costs, making sure that enthusiasts who really want the product pay the high price they expect to pay. For example, the first DVD players came onto the UK market at a price of around £1,000. Firms use the initial sales period to assess the market reaction. If sales become stagnant, the price can be lowered to attract customers who were unwilling to pay the initial price. The price can also be lowered if competitors enter the market.

Penetration

Penetration pricing is used when launching a product into a market where there are similar products. The price is set lower to gain market share. Once the product is established, the price can be increased. It is hoped that high levels of initial sales will recover development costs and lead to lower average costs as the business benefits from bulk-buying benefits.

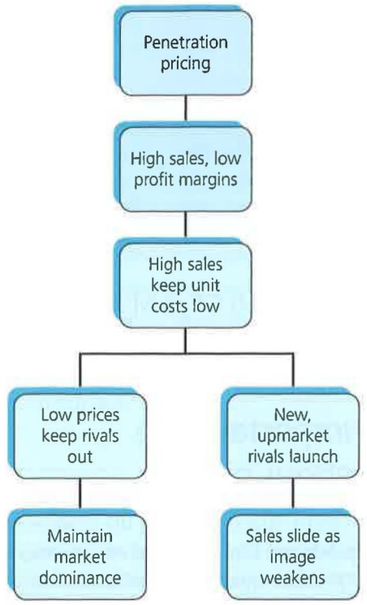

Figure 12.2 Logic chain: pros and cons of penetration pricing

	Price skimming	Price penetration
Advantages	High prices for a new item such as the iPhone help establish the product as a must-have item. Early adopters of a product usually want exclusivity and are willing to pay high prices, so skimming makes sense for them and for the supplier. Innovation can be expensive, so it makes sense to charge high prices to recover the investment cost.	Low-priced new products may attract high sales volumes, which makes it very hard for a competitor to break into the market. High sales volumes help to cut production costs per unit, as the producer can buy in bulk and therefore get purchasing costs down. Achieving high sales volumes ensures that shops will provide high distribution levels and good in-store displays.
Disadvantages	Some customers may be put off totally by 'rip-off pricing' at the start of a product's life. When the firm decides to cut its prices, its image may suffer. Buyers who bought early (at high prices) may be annoyed that prices fell soon afterwards.	Pricing low may affect the brand image, making the product appear 'cheap'. It may be hard to gain distribution in more upmarket retail outlets, due to mass-market pricing. Pricing on the basis of value for money can cause customers (and therefore competitors) to be very **price sensitive**.

Table 12.2 Advantages and disadvantages of price skimming and price penetration

Real business

After years of dominance by Nike and Adidas, local sports footwear manufacturers made inroads into the Chinese market in 2010. Local brand Li Ning pulled alongside Adidas as the industry number two (market share by volume). The head of JWT China (advertising agency) said, 'The moment that a local brand can command the same price as a multinational brand is the day that a breakthrough has been made.'

To push further, Li Ning announced a new, higher-priced product range to sit 15 per cent below its foreign rivals. But by 2013, Li Ning was reporting sales slumping by 25 per cent and more than 1,000 store closures. At the same time, Nike sales in China slipped by just 3 per cent. The price breakthrough hasn't happened yet.

Figure 12.3 Li Ning brand

Pricing strategies for existing products

Cost-plus

For existing products, the key is to be clear about where your brand is positioned in the market. Pricing strategy on the latest Mercedes sports car will be based on the confidence of the company in the strength of its brand name. Mercedes will not worry about what Ford or Mazda charge for a sports car, or even the prices of its BMW or Lexus rivals. Mercedes can price a sports car on the basis of cost-plus. That means calculating the production costs per car, then adding a percentage mark-up that reflects the profit level the company wants from the product. Naturally, every business would like to be able to use this method. It virtually guarantees making a profit – and perhaps a large profit. But few businesses are in a position to ignore competitors' prices. In autumn 2014, a new Mercedes SL sports car carried a price tag of £72,500.

To calculate a price based on cost-plus:

Cost–plus formula: Unit cost + (% mark-up)

Step 1 – calculate unit cost:

$$\frac{\text{Total costs}}{\text{Number of units}} = \text{Unit cost}$$

Step 2 – add your desired mark-up (clothes shops typically add a 100 per cent mark-up; small grocers add around 25 per cent).

For example: a business manufactures educational DVDs. Fixed costs are £40,000 a month and variable costs are £5 per DVD. The business produces 20,000 a month.

Total costs are:

£40,000 + (£5 × 20,000) = £140,000

Unit costs are therefore:

$$\frac{£140{,}000}{20{,}000} = £7 \text{ each}$$

Assuming a 200 per cent mark up, the selling price is:

£7 + (200% of £7 = £14) = £21

'If you're starting a service business, markup is more difficult to calculate because variable costs are hard to work out.'

Competitive

This is when the price is set at the market level or at a discount to the market. This happens in highly competitive markets, or in markets where one brand dominates. When Branston Baked Beans were launched in 2006, they were priced at 41p, compared to the 44p charged by the price leader, Heinz. By 2014, the Asda price of Branston was 50p to the 68p of Heinz, implying that Branston is still a price taker, but in a significantly weaker position now than then. Every business would like to set its own prices based on cost-plus. Mercedes can and Heinz can. Those that cannot use competitive pricing, which means that they have no real control over their future revenues.

'The moment you make a mistake in pricing, you're eating into your reputation or your profits.'

Katharine Paine, business executive

Predatory

Predatory pricing means pricing low enough to drive a rival or rivals out of business. Typically, the predator would be hoping that, having eliminated the competition, prices can then be set much higher. Clearly this approach can only work if:

- the predator is strong financially, perhaps because the product or service involved in the price war is not

an important part of the overall business; at present, Cadbury and Mars are fighting hard for a share of the small but growing share of the chocolate market in India. Cadbury sell their chocolate bars at a unit price of 10p; even if this caused losses to Cadbury in the attempt to 'kill off' Mars, it wouldn't be a big problem as sales in India represent less than 5 per cent of Cadbury sales.

- the other company or companies are weak financially; if, for example, a huge outsourcing company such as Serco chose to undercut a small local competitor in one part of the country, it might be very easy to drive it out of business; this would be illegal, but only if it can be proved that the price cutting had the intention of driving a rival out of business. Generally, price cutting rarely gets a bad press from consumers or the media.

Psychological

This is perhaps more of a tactic than a strategy. At the time of writing, all the UK's big five supermarkets are charging 49p for a pint of milk. They are all concerned about pushing the price to or beyond 50p because they think 50p is a psychological price barrier. In other words they believe that **price elasticity** will be higher in changing from 49p to 50p than it was when the price rose from 48p to 49p.

So producers and retailers believe that consumers have certain psychological price barriers that are hard to cross without losing sales. In the car market, £9,999 seems quite a bit less than £10,499. In Primark, £9.99 seems quite a bit less than £10.99 and so on.

Choosing a pricing strategy

The choice of pricing strategy will depend on the competitive environment. Figure 12.4 shows how the choice of pricing strategy will vary according to the level of competition.

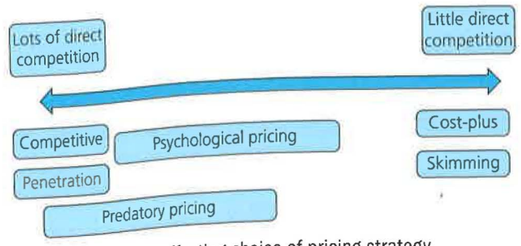

Figure 12.4 Factors affecting choice of pricing strategy

12.3 Factors that determine the appropriate pricing strategy

Many companies conduct regular market research into pricing. They use monthly 'retail audits' to get regular feedback on whether customers see their prices as value for money. If there is a slippage in this rating, there would be serious thought given to cutting prices or to trying to rebuild 'value' by more advertising or perhaps a packaging or product revamp. Companies know that pricing is the key to sales revenue and therefore keep a constant eye on it.

Product differentiation

However much competition there is in the market, a well-differentiated product can stand apart. In the crowded UK market for chocolate bars, Bounty is wonderfully differentiated. In fact it could be said to have a unique selling point – that unbelievably sweet coconut filling. Some are hooked on that; others avoid it. Generally, if people feel strongly for or against a product, it is probably in a good position to withstand competition. Highly differentiated products can think in terms of cost-plus pricing.

Strength of the brand

Few methods of differentiation are as effective as strong branding. A coconut filling can be copied by a rival producer tomorrow; but no-one else can call it a Bounty bar. Super-strong brands such as Wrigley (92 per cent market share) or Pampers (63 per cent market share) can use cost-plus pricing and launch new products on the basis of skimming the market.

Amount of competition

The fiercer the competition in a market, the more important price becomes. Customers have more choice, so they take more care to buy the best-value item, whereas a business with a strongly differentiated position is able to charge higher prices. The more direct the competition, the more likely it is that competitive pricing will be required. Predatory pricing is an absolute last resort.

Price elasticity of demand

The three above factors (differentiation, branding and competition) can all be summed up in a single figure: price elasticity. A highly differentiated, strong brand will have low price elasticity of demand and therefore be able to set its price without too much concern about sales volumes – ideal for cost-plus pricing.

For a product or service with high price elasticity of demand, competitive pricing is inevitable, but may make it very hard to generate a profit. These are the circumstances in which a large business might be tempted to take predatory action – to eliminate weaker competitors and thereby remove some of the pressure to cut prices.

Stage in the product life cycle

At certain times during a product's life cycle, pricing is especially important. Incorrect pricing when the product is launched could cause the product to fail. At other stages in the product's life, pricing may be used to revive interest in the brand.

There are two basic pricing decisions: pricing a new product and managing prices throughout the product life. Both decisions require a good understanding of the market: consumers and competitors. Many businesses launch at relatively good value prices and hold prices down in the early growth phase of the business. When growth develops further, prices are steadily increased and remain high during the maturity and early decline phases. Only when decline becomes entrenched may prices be cut to try to keep the business going for longer.

Real business

London's Hoxton Hotel

To build up its business, for its first ten years of trading, London's Hoxton Hotel promised to sell five rooms per night at £1 and another five at £29. The other 190 were at the 'normal' rate of £249! The Hoxton used this device to get customers to register as members of the Hoxton Fan Club. Only they were told when the sale was taking place of the £1 rooms. So this pricing trick gave the Hoxton a terrific email list of people interested in London hotel rooms. Today, you have to get used to weekday prices starting at £249.

Costs and the need to make a profit

Pricing is critical because, unlike the other ingredients in the marketing mix, it is related directly to revenue through the formula:

revenue = price × units sold

Pricing involves a balance between being competitive and being profitable. An important part of that is a good understanding of costs. These costs must include purchasing, manufacturing, distribution, administration and marketing. Cost information should be available from the company's management accounting systems.

The lowest price a firm can consider charging is set by costs. Except as a temporary promotional tactic (a **loss leader**), businesses must charge more for the product than the variable cost. This ensures that every product sold contributes towards the fixed costs of the business.

12.4 Changes in price to reflect social trends

Online sales

The growth of Amazon.com has been a classic in pricing strategy. Boss Jeff Bezos wanted to build Amazon into the world's biggest online shop and used pricing quite ruthlessly as part of this programme. In the phenomenon that was the publishing of Harry Potter books, Amazon slashed prices to half price or less, threatening the survival of independent book shops. Indeed many called its actions 'predatory'. The number of independent book shops in the UK fell from 1,535 in 2005 to 987 by the beginning of 2014.

Without doubt, buying online makes it easier to compare prices and to buy from the cheapest. This is great for consumers, for as long as there is competition to the giants such as Amazon. As shown in Figure 12.5, UK shoppers are especially inclined to shop online.

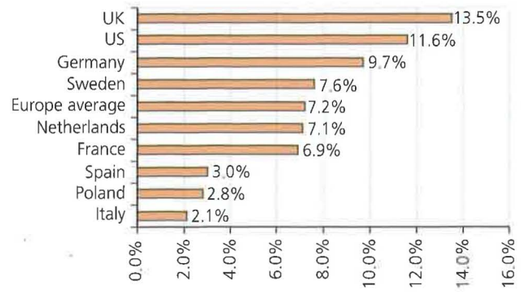

Figure 12.5 Online retail shares of home market, 2014 (estimate) (source: Centre for Retail Research)

Price comparison sites

Useful though online shopping is for consumers, price comparison sites suffer from conflicts of interest, which lead to a lack of clarity about what they are. These sites are not necessarily designed to find you the best deal; they may be designed to get the best deal for the site. In other words, they may propose a 'best deal' that is not the

cheapest, but gives the site the highest rate of commission. Despite these doubts, usage of the sites seems to grow steadily, backed by huge investments in advertising.

> 'With the advent of the internet, customers are able to compare prices easily and this has raised the importance of pricing among the 4Ps.'
>
> Philip Kotler, marketing guru

Five whys and a how

Questions	Answers
Why should companies be wary of tactical, low pricing, e.g. special offers?	Because of the potential damage to image. Can you imagine a 'special offer' BMW? Or, indeed, buy one BMW, get one free?
Why is price cutting a risk to profits even when it helps increase revenue?	If a 10 per cent price cut boosts demand by 15 per cent, revenue rises; but the price cut hits the profit margin, which may mean that profits actually fall.
Why may firms set lower prices in the growth phase than in the decline phase of the life cycle?	In the growth phase, prices may be kept low to attract a large number of potential loyalists; in decline, there are few new customers to attract, so prices may be kept high to exploit customer inertia/loyalty.
Why may skimming the market prove the wrong pricing strategy for a new product?	Skimming may generate a good image plus strong profits in the short term, but allow space in the market for new rivals to step in.
Why don't music acts price their tickets high enough to make ticket touting irrelevant?	Because the groups worry that their fans will feel they are being 'ripped off'; much better to blame the touts.
How should a new, independent pizza business set its prices?	It should find out customer reactions to the brand and the product – and set prices accordingly.

12.5 Pricing strategies – evaluation

Economists think of price as a neutral factor within a marketplace. Many businesses would disagree, especially those selling consumer goods and services. The reason is that consumer psychology can be heavily influenced by price. A '3p off' sticker makes people reach for the Mars bars, but '50% off' might make people wonder whether they are old stock or have suffered in the sun; they are *too* cheap.

When deciding on the price of a brand new product, marketing managers have many options. Pricing high may generate too few sales to keep retailers happy to stock the product. Yet, pricing too low carries even more dangers. Large companies know there are no safe livings to be made selling cheap jeans, cheap cosmetics or cheap perfumes.

If there is a key to successful pricing, it is to keep it in line with the overall marketing strategy. When Häagen-Dazs launched in the UK at prices more than double those of its competitors, many predicted failure. In fact, the pricing was in line with the image of adult, luxury indulgence and Häagen-Dazs soon outsold all other premium ice creams (though today Ben & Jerry's is number one). The worst pricing approach would be to develop an attractively packaged, well-made product and then sell it at a discount to the leading brands. In research, people would welcome it, but deep down they would not trust the product quality. Because psychology is so important to successful pricing, many firms use qualitative research, rather than quantitative, to obtain the necessary psychological insights.

Key terms

Loss leader: pricing a product below cost in order to attract further, profitable business. Sony did this at the launch of the PS3 and the PS4 – bring customers in who will then buy accessories and software.

Price elasticity: a measurement of the extent to which a product's demand changes when its price is changed.

Price sensitive: when customer demand for a product reacts sharply to a price change (that is, demand is highly price elastic).

Pricing tactics: short-term pricing responses to opportunities or threats.

12.6 Workbook

Revision questions

(35 marks; 35 minutes)

1. Explain why price is fundamental to a firm's revenues. (3)
2. Look at Figure 12.1. Outline two factors that would affect the 'psychologically right price range' for a new Samsung phone. (4)
3. Explain how the actions of Nike could affect the footwear prices set by Adidas. (3)
4. Look at Table 12.1, on the price sensitivity of products, brands and services. Think of two more examples of highly price-sensitive and two examples of not-very-price-sensitive products, services or brands. (4)
5. Explain the difference between pricing strategy and pricing tactics. (2)
6. For each of the following, decide whether the pricing strategy should be skimming or penetration. Briefly explain your reasoning.
   a) Richard Branson's Virgin group launches the world's first space tourism service (you are launched in a rocket, spend time weightless in space, watch the world go round, then come back to earth). (4)
   b) Kellogg's launches a new range of sliced breads for families who are in a hurry. (4)
   c) The first robotic washing machine is launched. It washes, dries and irons the clothes – and places them in neat piles. (4)
7. Is a price-elastic product likely to be priced competitively or on a cost-plus basis? Explain your reasoning. (3)
8. Outline two circumstances in which a business may decide to use predatory pricing. (4)

Data response 1

On 1 February 2014, Tesco Price Check provided the information given in Table 12.3 on the prices of shampoo brands. Study the table and then answer the questions that follow.

Product description	Tesco price (£)	Asda price (£)
Tresemmé Instant Refresh Dry Shampoo 200 ml	4.99	5.00
Pantene Volume & Body 250 ml	2.89	2.68
Head & Shoulders Classic 250 ml	2.99	2.79
Vosene Original 250 ml	1.79	2.00
John Frieda Full Repair 250 ml	5.89	5.89
Own-label* Baby 500 ml	1.00	1.00
Own-label* Budget Shampoo 1000 ml	0.40	0.40
Bob Martin Dog Shampoo 250 ml	–	3.48

*Own-label means the supermarket's own brand.

Table 12.3 Prices of shampoo brands in January 2014

Questions (30 marks; 30 minutes)

1. Explain why it may be fair to describe Vosene shampoo as a price-taker. (4)
2. John Frieda shampoo is priced at more than 40 times the level of supermarket budget shampoos (per ml). Assess two reasons why customers may be willing to pay such a high price. (8)
3. Examine the position of the long-established brand Head & Shoulders within the UK market for shampoo. What pricing strategy does it seem to be using and why may it be possible to use this approach? (6)
4. Assess whether dogs should have 'better' shampoo than kids. (12)

Data response 2

New product pricing strategy

Before the October 2012 launch of Maruti Suzuki's new Alto 800, the company set itself a target unprecedented in the history of the Indian automobile industry. Maruti called it the '50/20/10 target'. It meant aiming for 50,000 test drives and 20,000 deliveries – all within the first 10 days.

To make it harder to achieve, the car market was slipping backwards in autumn 2012 as the Indian economy grappled with 10 per cent inflation and

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.'

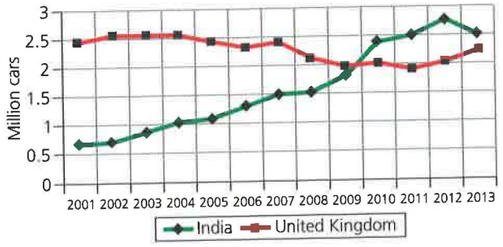

Figure 12.7 Market for new cars: India v. UK (source: www.oica.net)

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