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The Analysis of Intensive Distribution Approach

Ali Hosseinpour
Department of Management,
Allameh Tabatabaii University, Tehran, Iran

Abstract. Distribution is a tool for creating a competitive advantage. In choosing the distribution method, costs should be taken into account. In this research I will explain distribution channels that include intensive distribution, selective distribution and exclusive distribution. Exactly, the intensive distribution as the one of the main distribution channels will be explained. Also the advantages and disadvantages of each channel of distribution and their usages and the condition that they are used will be clarified.

Keywords. Distribution, Channel, Intensive, Selective, Exclusive.

1. Introduction

Through the years, the distribution task and procedures have had a tremendous value for economical and industrial sides of life. As you know, one of the significant challenging decisions that managers are dealing with it is distribution. Distribution refers to procedures and activities undertaken to transfer the products and services from the manufacturer to the consumer. One of the four aspects of marketing mix is distribution; consequently, as the one of the main components, it could lead to attaining marketing goals. The importance of the taken decisions about distribution channels is related to the commitments that companies have to accept for a long time. A distribution system needs a long period of time to be established appropriately and it couldn't be changed easily. A successful distribution network will lead to easy access of consumers to the products with a clear and fair rate; in addition, it will lead to economical balance and the promotion of consumption and production segments. (Mohmmadian, 1391) Lack of appropriate function and illogical structure of distribution system cause to increasing of the product and services prices, dissatisfaction, the formation of irrational expectation by producers, and consumers, severe fluctuation of prices, wasting of resources, lack of clarity, decreasing of purchasing power and market turmoil. (Mohmmadian, 1391) In this research I will elaborate what we mean by distribution also I will examine some of the important kinds of distribution in international market that includes intensive, selective and exclusive distribution. Specially, this research is a survey of intensive distribution and the advantages of an intensive distribution strategy. In addition, I will introduce some goods that benefit from intensive distribution and the purpose of this distribution channel strategy in comparison with other distribution channels that include selective and exclusive distribution.

2. The Meaning of Distribution in Commerce

It means the movement of goods and services from the source through a distribution channel, right up to the final customer, consumer or user and the movement of payment in the opposite direction, right up to the original producer or supplier. (businessdictionary.com)

3. The Meaning of Intermediary and Identifying the Intermediaries

Firm or person (such as a broker or consultant) who acts as a mediator on a link between parties to a business deal, investment decision, negotiation, etc. In money markets, for example, banks act as intermediaries between depositors seeking interest income and borrowers seeking debt capital. Intermediaries usually specialize in specific areas, and serve as a conduit for market and other types of information. (businessdictionary.com)

There are many levels needed to be considered in choosing a channel structure , such as whether or not to use intermediaries, which type of the intermediary to use and which of them to use within a given type. The main aspects to consider when choosing the types are determined by factors of demand-size, channel coordination and supply –side factors. The end chosen structure should be that which helps meet the targeted market segment and to meet the demand of the targeted segments for service outputs. A type of intermediary chosen within a certain channel structure is a type of intermediary which suits the supply of a particular output of services. This is seen when the demand is high for bulk – breaking and an intermediary which will benefit from economies of scales and scope leads to lowering of the selling cost from small sizes distribution in the market .The high demand for quick delivery and spatial convenience, there will be increases of intensive distribution in order to create a selling site. The demand for assortments by the end-users and high variety means putting the products in the hands of the retailers and distributors is much superior to sell them directly. (Coughlan, et al., 2006)

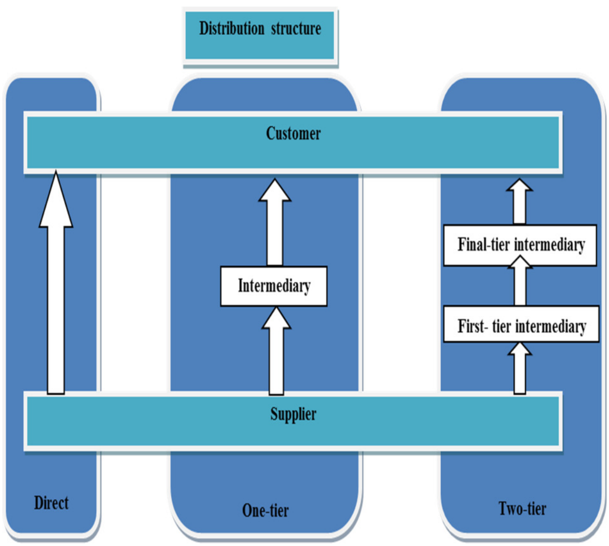

Figure 1. Distribution matters

Typically around half the price paid for a product by a customer is absorbed by the activities involved in getting that product to the customer (and the customer to the product). And this is a proportion that has increased significantly over the past 15 years as production costs have fallen while markets have segmented and media and distribution channels have multiplied(Dent, 1988). Markets are fragmenting as trends in consumer and business demographics create additional and more distinct customer segments. To make matters worse, product and service innovations are multiplying the options available. Even simple, commodity-type products may now be distributed to multiple customer segments through multiple routes that differ by country or region. Many of these routes to market involve one or more types of intermediary, such as wholesalers, distributors, dealers, brokers, aggregators and retailers. Companies that have invested in analyzing and understanding the business models of their distribution system have been able to take significant cost out of their own business, increasing profits or reducing prices to gain an edge over the competition.(Dent, 1988) Without the right routes to market, you simply won't reach your target market. Coca-Cola's burning desire throughout the 1990s was to make it easier and easier to buy a Coca-Cola. Just look at the result – there is virtually nowhere in the world where you are more than a few minutes from being able to buy a Coke at any time of the day or night. Many industrial companies are still struggling with access, unable to find the channels that will (note 'will', not can) take their products to market. Building access can be expensive, requiring extensive internal systems and infrastructure to be able to sense market demand, gather and evaluate sales forecasts, deploy marketing programmes and promotions, plan and execute complex logistics. (Dent, 1988) You may want the channel to fulfill demand you have generated or even generate demand for you to fulfill. Your market access depends on understanding the role you want your channels to play and the cost and investment that are commensurate with the return generated.

Often, routes to market control product differentiation. You want your product or offering to be different from your competitors. Routes to market play a vital role in enabling this. Often, the channel you use is the sole way of demonstrating that your product is different from your competitors.

Dell in the computer industry is a good example of this, selling a product that is over 95 per cent the same as all its competitors (with the chips and operating software coming from standard suppliers Intel and Microsoft). Its channel – online direct – is its primary differentiator, offering price and flexibility advantages over its competition which, until recently, has gone to market through retail and dealer channels. (Dent, 1988), (Dent, 1988)

3. Distribution Intensity

One of the key elements of channel management is deciding how many sales outlets should be established in a given geographic area. (Stern, et al., 1996)

The options vary from exclusive through selective to intensive distribution. Within indirect channels, when an exclusive or highly selective approach is taken, the intent is normally to provide territorial protection to intermediaries to promote their investments in the brand.(Dutta, et al.)

Studies of Frazier and Lassar show that manufacturers of high-end brands targeted to market niches and requiring close channel coordination tended to have lower distribution intensity levels. However, to the extent that retailers made credible commitments in the brand through signing restrictive contracts and making significant investments, the manufacturer was able to heighten distribution intensity to some degree to enhance market coverage. Fein and Anderson found that manufacturers and distributors behave in a manner that balances exposure, as limited distribution intensity by the manufacturer was found to go in tandem with product category selectivity by the distributor. Manufacturers were also shown to rely on fewer distributors in territories when distributor-specialized investments, direct sales, and brand strength are high, and competitive intensity and market importance are low. (Frazier, and Lassar, 1996), (Fein, Anderson., 1997)

In the future, how decisions on distribution intensity interact with the use of multiple channels needs to be examined. Firms may be able to rely on multiple channels for a greater variety of products, even those requiring a reasonable amount of intermediary investment, if distribution intensity is kept low in each channel. Furthermore, monitoring and enforcement efforts appear critical for firms using an exclusive or selective distribution approach, as unauthorized sales outside of assigned territories can cause considerable disruption. Therefore, exploring how firms should design contracts, monitor sales of intermediaries, and enforce territorial boundaries when using highly selective distribution is an important avenue for future research. (Dutta, et al., 1994)

When first launching into foreign markets, many companies, especially those small to medium in size, appoint exclusive distributors for entire countries. In fact, some companies give export management companies the rights to sell their products throughout the entire world, except for their domestic markets. Such a “hands-off” approach to foreign-market entry may provide for some quick incremental sales. However, by making more effort to understand foreign markets themselves and appointing more distributors per country, firms may be able to enhance their market positions and sales. (Frazier, Sheth, 1985), (Frazier, and Lassar, 1996)

4. Identifying Major Distribution Alternatives

I have mentioned the three distribution alternatives in the proceeding sections, namely intensive, selective and exclusive.

5. Intensive Distribution

This alternative involves all the possible outlets that can be used to distribute the products. This is particularly useful in products like soft drink where distribution is a key success factor. Here, soft drink firms distribute their brands through many outlets to ensure their easy availability to the customer. Hence, on the one hand brands are available in the restaurants and five star hotels and on the other hand they are also available through countless soft drink stalls, kiosks, tea shops, sweat marts and so on. Any possible outlet were the customer is expected to visit is also an outlet for the soft drink. (Frazier, 1983), (Saxena, 2005)

If buyers are unwilling to search for a product (As is true of convenience good and operating supplies) , the product must be very accessible to buyers. A low-value product that is purchased frequently may require a lengthy channel. For example candy, chips and other snack foods are found in almost every type of retail store imaginable. These foods typically are sold to retailer in small quantities by food or candy wholesaler. The Wrigley Company could not afford to sell its gum directly to every service station, drugstore and super market. The cost would be too high. Sysco delivers food and related products to the restaurants and other food service companies that prepare meal for customers dining out. It is not economically feasible for restaurant to go individual vendors for each product. Therefore Sysco serves as intermediary by delivering all products necessary to fulfill restaurant needs. (Saxena, 2005)

Most manufacturers pursuing an intensive distribution strategy sell to a larger percentage of the wholesaler willing to stock their products. Retailers willingness to handle items need to control the ability of the manufacturer to achieve intensive distribution. For example a retailer already carrying ten brands of gum may show little enthusiasm for one more brand. (Lamb, et al., 2009)

Advantages of intensive distribution are: 1.Increased sales, wider customer recognition, and impulse buying.

Disadvantages of intensive distribution are:

1. Characteristically low price and low-margin products that require a fast turnover 2. Difficult to control large number of retailers. (slideshares.net), (Berman, 1996)

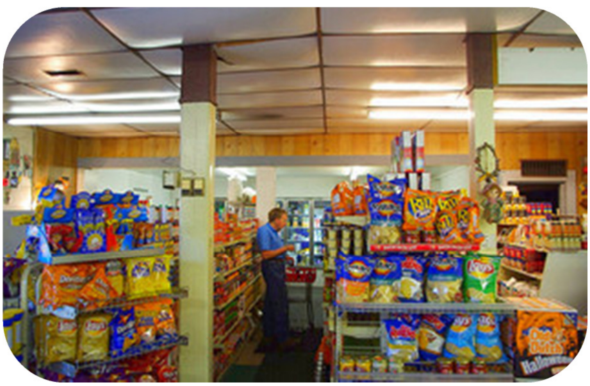

Figure 2. Intensive distribution- Snack food is a good example of a product that is intensively distributed. [18]

6. Selective Distribution

This alternative is the middle path approach to distribution. Here, the firm selects some outlets to distribute its product. This alternative help focus the selling effort of manufacturing firms on a few outlets rather than dissipating it over countless marginal ones. It also enables the firm to establish a good working relationship with channel members. Selective distribution can help the manufacturer gain optimum market coverage and more control but a lesser cost than intensive distribution. Both existing and new firms are known to use this alternative. (Saxena, 2005)

Because only a few retailers are chosen, the consumer must seek out the product. For example, when Heeling Sports LTD. launched Heelys, thick-soled sneakers with a wheel embedded in each heel, the company hired a group of 40 teens to perform Heely exhibition in targeted malls, skate parks, and college campuses across the country to create a demand. Then the company made the decision to avoid large stores like Target and to distribute the shoes only through selected mall retailers and skate and surf shop in order to position the product as “cool and kind of irrelevant.” (Lamb, et al., 2009)

Selective distribution strategies often hinge on a manufacturer`s desire to maintain a superior product image so as to be able to charge a premium price. Manufacturers sometimes expand selective distribution strategies, believing that doing so will enhance revenues without diminishing the image of their product. (Lamb, et al., 2009)

Selective distribution lets the producer gain good market coverage with more control and less cost than intensive distribution. Television sets, cameras furniture and small appliance brands are often distributed selectively. (Lamb, et al., 2009)

Figure 3. Selective distribution-Retailer such as Lowe`s are commonly utilized in selective distribution for large appliances. (Berman, 1996)

7. Exclusive Distribution

The most restrictive form of market coverage is exclusive distribution, which entails only one or few dealers within a given area. Because buyers may have to search or travel extensively to buy the product, exclusive distribution is usually confined to consumer specialty goods, a few shopping goods, and major industrial equipment. Products such as Rolls-Royce automobiles, Chris-Craft power boats, and Pettibone tower cranes are distributed under exclusive arrangements. Sometimes exclusive territories are granted by new companies (such as franchisors) to obtain market coverage in a particular area. Limited distribution may also serve to project an exclusive image for the product. (Lamb, et al., 2009)

Retailers and wholesalers may be unwilling to commit the time and money necessary to promote and service a product unless the manufacturer guarantees them an exclusive territory. This arrangement shields the dealer from direct competition and enables it to be the main beneficiary of the manufacturer`s promotion efforts in that geographic area. With exclusive distribution, channels of communication are usually well established because the manufacturer works with a limited number of dealers rather than many accounts. (Lamb, et al., 2009)

Figure 4. Exclusive distribution

Exclusive distribution also takes place within a retailer`s store rather than a geographic area- for example, when a retailers agrees not to sell a manufacturer`s competing brands. Mossimo, traditionally an apparel wholesaler, developed an agreement with Target to design clothing and related items sold exclusively at Target store. Other exclusive distributors involved in this successful model include Thomas O`Brien domestics, Sonia Kashuk makeup, Issac Mizrahi domestics and apparel and Todd Oldham home furnishing for the college student. (Lamb, et al., 2009)

8. Conclusion

Intensive distribution is one of the main channels of distribution. In the last years, discussion about intensive distribution is increasing in our country. It means, we distribute our products in every area to make it accessible easily. We use this kind of distribution for the products that have daily consumption and the consumer expects to access those products easily like bread, milk and so on.

The low prices and the difficulty to control all retailers are the disadvantages of intensive distribution. From its benefit I could mention to: increased sales and easy accessibility of the products.

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