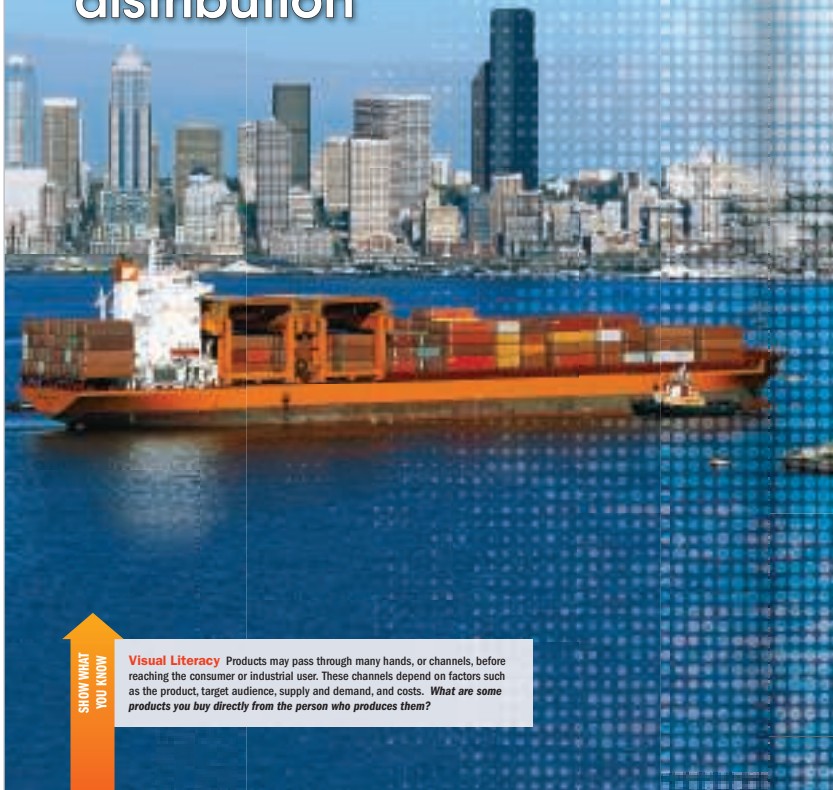


channels of distribution



SHOW WHAT YOU KNOW

Visual Literacy Products may pass through many hands, or channels, before reaching the consumer or industrial user. These channels depend on factors such as the product, target audience, supply and demand, and costs. *What are some products you buy directly from the person who produces them?*

Discovery Project

From Producer to Final User

Essential Question

How is a product moved from the manufacturer to the customer?

Project Goal

Select a product and describe how and by whom that product is transported from the manufacturer to the customer. You might select a type of produce, a computer, a digital SLR camera, a smartphone, a car, or any other product. Then visualize the path that product will take to reach the end user. (Hint: See **Figures 21.1** and **21.2** on pages 496–497.) Conduct additional research as necessary. Write a detailed report of how the product moves from manufacturer to the consumer.

Ask Yourself...

- What key words will you use to initiate your research?
- Would the channels of distribution for this product be different than for other products?
- Who would determine the channels of distribution for this product?



Analyze What are some criteria that would determine the channels used to distribute a product?

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Activity

Get a worksheet activity about channels of distribution.

Evaluate

Download a rubric you can use to evaluate your project.

DECA Connection

DECA Event Role Play

Concepts in this chapter are related to DECA competitive events that involve either an interview or role play.

Performance Indicators The performance indicators represent key skills and knowledge. Your key to success in DECA competitive events is relating them to concepts in this chapter.

- Explain the nature of channels of distribution.
- Explain the nature of channel-member relationships.
- Explain the nature and scope of channel management.
- Explain legal considerations in channel management.
- Explain ethical considerations in channel management.

DECA Prep

Role Play Practice role-playing with the DECA Connection competitive-event activity at the end of this chapter. More information about DECA events can be found on DECA's Web site.

ENGAGE

Visual Literacy

Read the chapter opener photo caption question to students:

What are some products you buy directly from the person who produces them? Students may mention such products as produce from a farmers market, baked goods from a bakery, or electricity from an electrical utilities company. Ask these guiding questions to activate prior knowledge.

Guiding Questions

Recall What are the four Ps of the marketing mix?

product, place, price, and promotion

Analyze Which of the four Ps deals with distribution planning? Explain your rationale.

place, because it deals with decisions as to how the product will be distributed in order to reach a business's customers

Discovery Project

From Producer to Final User Ask students the Discovery Project Essential Question to focus their thinking on how products are transported: *How is a product moved from the manufacturer to the customer?* Students should recognize that it depends on the product, distance, and the customer. For example, large products might be shipped by train or ship and then by truck to a local store where they are purchased by customers. Also, items purchased online from a manufacturer might be sent directly to the customer. Ask students to share different ways they have received goods. *Answers may include:* purchasing items at a store, receiving items through the mail, and receiving items by a package delivery system.

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Discovery Project Resources Send students to the Online Learning Center to download a rubric to evaluate their projects.

ENGAGE

Introduce the Chapter

Chapter 21 provides fundamental information about channels of distribution. These main concepts are introduced and discussed:


- Channel members
- Direct and indirect channels
- Channels of distribution for consumer products and services
- Channels of distribution for industrial products and services
- Distribution planning
- Multiple channels
- Control versus costs
- Distribution intensity
- Legal and ethical considerations
- Distribution in foreign markets

Discussion Starter

Channels of Distribution Bring a cotton T-shirt to class. Ask students to brainstorm all the elements and steps involved in bringing it to market. As students name the steps and elements, display their answers in a time-line format. Add any steps the students leave out. *Answers may include: raw cotton in the field, farmer's harvest and labor, making the raw material into fabric, collecting and delivering fabric to a manufacturer, and producing, warehousing, distributing, and selling the shirt.* Ask: *What might happen to this time line if there was a strike among shippers?* There would be delays in the delivery of raw cotton to the fabric manufacturer, the shipping of fabric to the shirt manufacturer, the shipping of the shirt to warehouse, and the shipping from the warehouse to the store.

DECA Connection

Discuss the performance indicators listed in the DECA Connection feature. Explain to students that performance indicators tell them how to demonstrate their acquired skills and knowledge through individual or team competitive events.


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Competitive Events Workbook For more DECA Role Plays, send students to the Online Learning Center to download the Competitive Events Workbook.

PRINT RESOURCES

- ▶ **Student Edition**
- ▶ **Teacher Edition**
- ▶ **Student Activity Workbook with Academic Integration** includes worksheets and activities correlated to the text.
- ▶ **Mathematics for Marketing Workbook** provides math activities for every unit in the text.

TECHNOLOGY TOOLBOX

- ▶ **Connect**
- ▶ **ConnectPlus**
- ▶ **ExamView Assessment Suite** is a comprehensive solution for creating, administering, and scoring tests.


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Online Learning Center provides a variety of resources to enrich and enhance learning.

SECTION, CHAPTER,
AND UNIT RESOURCES

- ▶ **Graphic Organizers** for organizing text concepts visually.
- ▶ **Digital Nation Activities** and **Green Marketer Activities** extend learning beyond the text features.
- ▶ **Career Chatroom Career Profiles** allow students to explore different marketing occupations in depth.
- ▶ **After You Read Answer Keys** for students to check their answers.
- ▶ **Discovery Project Rubrics** and **Marketing Internship Project Rubrics** for students to evaluate their projects.

PROGRAM
RESOURCES

- ▶ **Student Activity Workbook with Academic Integration Teacher Annotated Edition** includes annotated answers for the activities and worksheets.
- ▶ **Marketing Research Project Workbook** provides a step-by-step approach for students to complete their own marketing research studies.
- ▶ **School-to-Career Activity Workbook** helps students relate their class work to on-the-job experience and involves work-site analysis and working with mentors.
- ▶ **Competitive Events Workbook** helps prepare students for state and national marketing education competitions.
- ▶ **Inclusion in the Marketing Education Classroom** provides teaching resources for working with students with special needs.
- ▶ **PowerPoint Presentations** provides visual teaching aids and assessments for this chapter.

READING GUIDE

Before You Read

Reflect How do bananas reach your local grocery store?

Objectives

- **Explain** the concept of a channel of distribution.
- **Identify** channel members.
- **Compare** different channels of distribution.

The Main Idea

This chapter explores the marketing mix decision of place, which is where and how a product is distributed.

Vocabulary

Content Vocabulary

- channel of distribution
- intermediaries
- wholesalers
- rack jobbers
- drop shippers
- retailers
- brick-and-mortar retailers
- e-tailing
- agents
- direct distribution
- indirect distribution

Academic Vocabulary

You will find these words in your reading and on your tests. Make sure you know their meanings.

- commission
- automatic

Graphic Organizer

Draw or print this chart for listing routes to distribute products.

Routes Taken to Distribute Products	
Consumer Products	Industrial Products
A.	A.
B.	B.
C.	C.
D.	D.
E.	

glencoe.com

Print this graphic organizer.

STANDARDS

ACADEMIC

English Language Arts

NCTE 1 Read texts to acquire new information.

NCTE 8 Use information resources to gather information and create and communicate knowledge.

Mathematics

NCTM Number and Operations Understand numbers, ways of representing numbers, relationships among numbers, and number systems.

NCS National Council for the Social Studies

NCTE National Council of Teachers of English

NCTM National Council of Teachers of Mathematics

NSES National Science Education Standards



Common Core

Writing Produce clear and coherent writing in which the development, organization, and style are appropriate to task, purpose, and audience.

MARKETING CORE FUNCTION

Channel Management

me Section 21.1

Distribution

DISTRIBUTION: HOW IT WORKS

How do you get somebody to buy your product? By marketing it! Another important question is: "How does the product get to your customers?" The answer relates to the place decision, one of the four Ps of the marketing mix.

The **channel of distribution** is the path a product takes from its producer or manufacturer to the final user. When the product is purchased for use in a business, the final user is classified as an industrial user. When the product is purchased for personal use, the final user is classified as a consumer.

“To make a place decision, marketers must decide on a channel of distribution.”

Using shampoo as an example, you can see how the same product may be classified as both a consumer and an industrial product. Manufacturers of shampoo sell their products to the customer through retail stores. They may also sell shampoo to hair salons and hotel chains as an industrial product for use in a business.

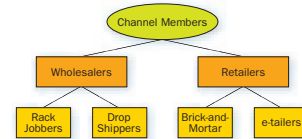
As You Read

Apply Select a product. Which channel of distribution does your product follow?

CHANNEL MEMBERS

Businesses involved in sales transactions that move products from the manufacturer to the final user are **intermediaries** or middlemen. Intermediaries reduce the number of contacts required to reach the final user of the product.

Suppose four customers wanted to buy a digital camera made by Nikon®. If Nikon sold directly to them, it would have to make four separate sales transactions. By using an intermediary, such as a video store, the number of contacts with sales transactions Nikon must make would be reduced to one.



Intermediaries are classified on the basis of whether they take ownership (title) of goods and services. Merchant intermediaries take title. Agent intermediaries do not. Agent intermediaries, usually called "agents," receive a **commission**. The two major types of merchant intermediaries are known as *wholesalers* and *retailers*.

WHOLESALESA

Businesses that buy large quantities of goods from manufacturers, store the goods, and then resell them to retailers are called **wholesalers**. Wholesalers may be called "distributors" when their customers are professional or commercial users, manufacturers, governments, institutions, or other wholesalers. In either case, they take title to the goods that they buy for resale.

Two types of wholesalers are rack jobbers and drop shippers. **Rack jobbers** manage inventory and merchandising for retailers by counting stock, filling the shelves when needed, and maintaining store displays. They provide the racks for display of products in a retail store. They bill the retailer only for the goods sold, not for all the items on display.

ENGAGE

Anticipation Activity

Improving Student Achievement Manufacturers must make decisions about how best to reach their customers so that their products are available where their customers shop. Ask students all the different ways they can purchase a computer. **Answer:** in a retail store, from a printed catalog, from an online store that carries computers, or directly from a manufacturer's Web site

Objectives

- **Explain** the concept of a channel of distribution. A channel of distribution is the path a product takes from its producer or manufacturer to the final user.
- **Identify** channel members. manufacturer, final user, intermediaries (wholesalers, retailers) and agents (brokers, independent manufacturers' representatives)
- **Compare** different channels of distribution. Direct distribution is the most common channel in the industrial market. Direct distribution is not the most common channel in retail.

Graphic Organizer

Routes Taken to Distribute Products

Consumer Products	Industrial Products
A. Manufacturer/Producer Directly to Consumer	A. Manufacturer/Producer Directly to Industrial Users
B. Manufacturer/Producer to Retailer to Consumer	B. Manufacturer/Producer to Industrial Distributors to Industrial Users
C. Manufacturer/Producer to Wholesaler to Retailer to Consumer	C. Manufacturer/Producer to Agents to Industrial Distributors to Industrial Users
D. Manufacturer/Producer to Agents to Wholesaler to Retailer to Consumer	D. Manufacturer/Producer to Agents to Industrial Users



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iWB

Graphic Organizer Send students to the Online Learning Center to print this graphic organizer.

EXPLORE



Before You Read

Read the Before You Read question aloud: *How do bananas reach your local grocery store?* **Sample answer:** Bananas are picked on a plantation and shipped by truck to a port, where they are distributed by ship, train, or truck to a regional warehouse and then by truck to a local grocery store. Ask: *Who sold the bananas to the grocery store?* a produce wholesaler, or if it is a very large store chain, possibly the actual banana farmer

Preteaching Vocabulary

Have students go to the Online Learning Center at glencoe.com for the Section 21.1 Preteaching Vocabulary online quiz.

Content Vocabulary

Instruct students to write a paragraph in which they discuss how the vocabulary terms are interrelated. **Sample answer:** A channel of distribution is the path a product takes from its producer or manufacturer to the final user. Members of the channel include intermediaries, wholesalers, rack jobbers, drop shippers, retailers, brick-and-mortar retailers, and agents. Online retailing, called e-tailing, is also a member of the channel; this shopping outlet is called the e-marketplace. There are direct and indirect channels of distribution, and there are a number of types of distribution such as exclusive, integrated, selective, and intensive distribution.

Academic Vocabulary

Automatic—Synonyms Tell students that *automatic* can refer to something done unconsciously or involuntarily, such as breathing or eyelid blinking, or it can refer to something done or produced by a machine. Have students create a list of synonyms for automatic. *instinctive, unthinking, knee-jerk, mechanical, robotic, spontaneous.* Read the following sentence to students: *The hotel placed automatic retail machines on each floor so guests can purchase snacks and beverages 24 hours a day.* Ask students to name the synonym that best fits the use of *automatic* in this sentence. *mechanical*



PROFESSIONAL DEVELOPMENT

MINI CLIP 

Reading: Lesson Reflections

Go to the Online Learning Center to view a video clip in which a narrator discusses various instructional strategies suitable for use with English learners.



Distribution

DISTRIBUTION: HOW IT WORKS

Explain to students that distribution is an important part of marketing. Recall the four Ps of the marketing mix—product, place, price, and promotion. Companies make “place decisions” when planning how best to distribute their products in order to reach their customers.

Guiding Questions

Explain What is an industrial user? What is a consumer?

An industrial user is the final user of a product that is purchased to be used in a business. A consumer is the final user of a product.

Contrast What is the difference between wholesalers and retailers?

Wholesalers buy large quantities of goods from manufacturers, store the goods, and then resell them to retailers. Retailers sell goods to the final consumer for personal use.



As You Read

Read students the As You Read question: *Select a product. Which channel of distribution does your product follow?* *Manufacturer/Producer Directly to Consumer; Manufacturer/Producer to Retailer to Consumer; Manufacturer/Producer to Wholesaler to Retailer to Consumer; Manufacturer/Producer to Agents to Wholesaler to Retailer to Consumer; or Manufacturer/Producer to Agents to Retailer to Consumer.*

Expert Advice

Read the quote to students:

“To make a place decision, marketers must decide on a channel of distribution.”

Ask students: *How are channels of distribution and place connected?* *Manufacturers must know how to get their product to consumers, which involves knowing where the consumer will purchase the product and the best way to get the product to that point.*

Drop shippers own the goods they sell, but they do not physically handle the actual products. They deal in bulk, or large quantities of items, such as coal, lumber, and chemicals that require special handling. Drop shippers sell the goods to other businesses and have the producer ship the merchandise directly to the buyers.

RETAILERS

Retailers sell goods to the final consumer for personal use. Traditional retailers, called **brick-and-mortar retailers**, sell goods to customers from their own physical stores. These retail stores buy their products from manufacturers or wholesalers. They serve as the final link or path between the manufacturer and consumer. To build good customer relationships, they may offer special services, such as credit or delivery. Big box stores, such as Costco, straddle a line between being a wholesaler and a retailer, as they might sell products at close-to-wholesale prices directly to the public.

A number of non-store retailing operations serve the customer. These operations include online retailing (or e-tailing), direct mail and catalog retailing, TV home shopping, and **automatic** retailing (vending machines).

Online retailing, or **e-tailing**, involves retailers selling products over the Internet to the customer. Some e-tailing companies are found only on the Internet, such as amazon.com or overstock.com.

Almost all major brick-and-mortar and catalog retailers also sell their products online. This area of marketing is growing faster than any other.

Direct mail and catalogs also reach the final consumer. Many large brick-and-mortar retailers produce their own catalogs to reach consumers who prefer shopping at home. There are also catalog houses that buy goods from different manufacturers and display them in a catalog for sale to the customer. Most catalogs also offer the option of ordering online.



Amazon.com provides an extra service to their customers: free shipping on orders over \$25. *How does this illustrate the importance of distribution?*

Getting the Goods to Customers

Television home shopping networks are TV stations that sell products to consumers. These networks buy the products in set quantities and sell them via television programs. Consumers phone in their orders while watching shows.

Vending service companies buy manufacturers' products, such as drinks, snacks, and travelers' items, and then sell them through vending machines. These companies place their vending machines in stores, office buildings, hospitals, airports, schools, and other institutions at no charge.

AGENTS

Unlike wholesalers and retailers, agents do not own the goods they sell. **Agents** act as intermediaries by bringing buyers and sellers together. There are two different types of agents: manufacturers' representatives and brokers.

INDEPENDENT MANUFACTURERS' REPRESENTATIVES

Independent manufacturers' representatives work with several related (but noncompeting) manufacturers in a specific industry. They are not on any manufacturer's payroll. Instead, they are paid commissions based on what they sell.

An independent manufacturers' agent might carry a line of fishing rods from one manufacturer. He or she may buy lures from a second manufacturer and nets from a third manufacturer.

BROKERS

A broker's principal function is to bring buyers and sellers together in order for a sale to take place. Brokers usually do not have a continued relationship with either party. They negotiate the sale, receive a commission, and then look for other customers. Food brokers, however, represent several manufacturers of products sold in supermarkets, convenience stores, and other specialty food stores.

DIRECT AND INDIRECT CHANNELS

Channels of distribution are classified as direct or indirect. **Direct distribution** occurs when the producer sells goods or services directly to the customer with no intermediaries. **Indirect distribution** involves one or more intermediaries. Consumer markets and industrial markets use both direct and indirect channels of distribution. (See **Figures 21.1** and **21.2** on pages 496 and 497.)



Reading Check

Contrast What is the difference between direct and indirect distribution?



Pottery Barn® began as a retail store and then began e-tailing with its own Web site. *What advantages and disadvantages do brick-and-mortar stores give a company?*

E-Tailing, Etc.

EXPLAIN

Activate Prior Learning

The Four Ps of the Marketing Mix Ask students to recall the four Ps of the marketing mix: **product, price, place, and promotion**. Ask: *What is place in terms of the marketing mix?* The means of getting the product into the customer's hands is the place element of the marketing mix. Knowing where one's customers shop helps marketers make the place decision. Place strategies determine how and where a product will be distributed. For global companies, it may mean making decisions about which products will be sold in which countries and which retail outlets or other means of selling the product will best reach the customer. Marketers need to determine whether the product can be sold directly to the customer, via the Internet, through catalogs, or through a reseller.

Visual Literacy

Getting the Goods to Customers Caption Answer Read the caption and question to students: Amazon.com provides an extra service to their customers: free shipping on orders over \$25. *How does this illustrate the importance of distribution?* **Sample answer:** Free shipping entices customers to purchase even when they cannot be physically present at the brick-and-mortar store. Convenience and reliability are keys to sustaining business in the e-tailing environment.

Critical Thinking

Ask students: *What do you think is the cause-and-effect relationship of a reliable channel of distribution and sales as opposed to an unreliable channel of distribution and sales?* Students should recognize that a reliable channel of distribution will help to increase sales and an unreliable channel of distribution will hurt sales.

ELABORATE

Critical Thinking

Ask students if they think that a company such as Hershey Foods Corporation in Hershey, Pennsylvania, would be willing to distribute candy bars directly to their high school student store and sporting events. Ask: *Why or why not?* Have students give reasons for their responses. *Most students should recognize that the Hershey Foods Corporation would not want to deal with such a small operation as a local high school because the paperwork and shipping would be too costly and time consuming. Hershey might sell to the high school if it sold candy by the truckload, which is impractical for the high school.*

Mini Projects

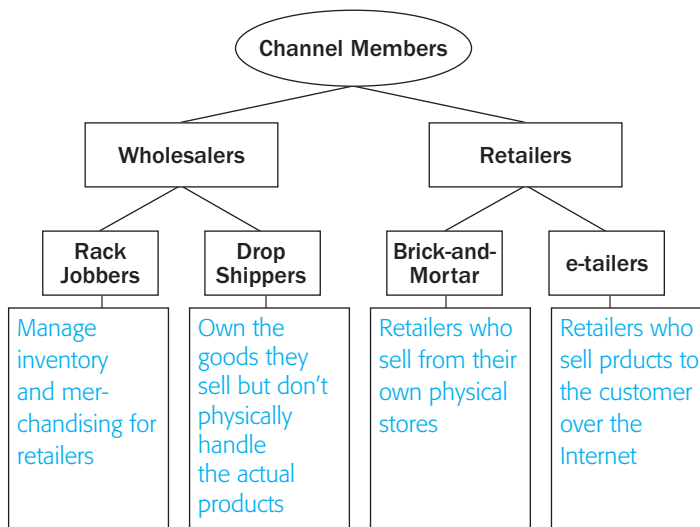
Enrichment

Write an Essay Ask students to imagine that the intermediaries they have come to rely on have disappeared overnight. Have them write a one-page essay on what would happen within a year to the variety of goods available to consumers and to production capabilities. *Students might suggest that the variety of goods available to consumers would be reduced and production capabilities would be limited, unless they could use the Internet to generate enough business from manufacturers. Essays should consist of unified paragraphs. All information in a paragraph relates to one idea and no details in the paragraph are irrelevant to the idea. Essays should be free of grammar and spelling errors.*

Conduct an Analysis Have students conduct a comparative shopping analysis and purchase plan for one book of their choice at the following locations: a local brick-and-mortar bookstore, an online store, a local used bookstore, and an online used bookstore. Students should research a variety of measures such as price (including taxes and shipping), time of delivery, condition of purchase (see the product's description on sites for used books), convenience factor, and so on. Ask students to record their data in a spreadsheet and to indicate their proposed purchase plan. Have students share their spreadsheets and purchase plans with the class. Ask students for the rationale behind their purchase plan.

Graphic Organizer

Display this chart. Ask students to provide descriptions for Rack Jobbers, Drop Shippers, Brick-and-Mortar, and e-tailers. *Possible answers:*



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Graphic Organizer Send students to the Online Learning Center to print this graphic organizer.



Reading Check Answer

Read the Reading Check question to students: *What is the difference between direct and indirect distribution?* *Direct distribution occurs when the producer sells goods or services directly to the customer with no intermediaries. Indirect distribution involves one or more intermediaries.*

Visual Literacy

E-Tailing, Etc. Caption Answer Read the photo caption question to students: *What advantages and disadvantages do brick-and-mortar stores give a company?* *Advantages: They serve as the final link or path between the manufacturer and consumer. To build good customer relationships, they may offer special services. Big box stores straddle a line between wholesale and retail, as they might sell products at close-to-wholesale prices directly to the public. Customers have the opportunity to see products up close. Disadvantages: Prices may be higher to pay for the overhead necessary to have a brick-and-mortar site.*

FIGURE 21.1 Distribution Channels—Consumer Products

Products are distributed to consumers through five channels. In the past, most consumer goods were not distributed using direct distribution (Channel A) because consumers were accustomed to shopping in retail stores. E-commerce is changing that for many products. Which channel is used most often for items that go out of date quickly or need servicing?

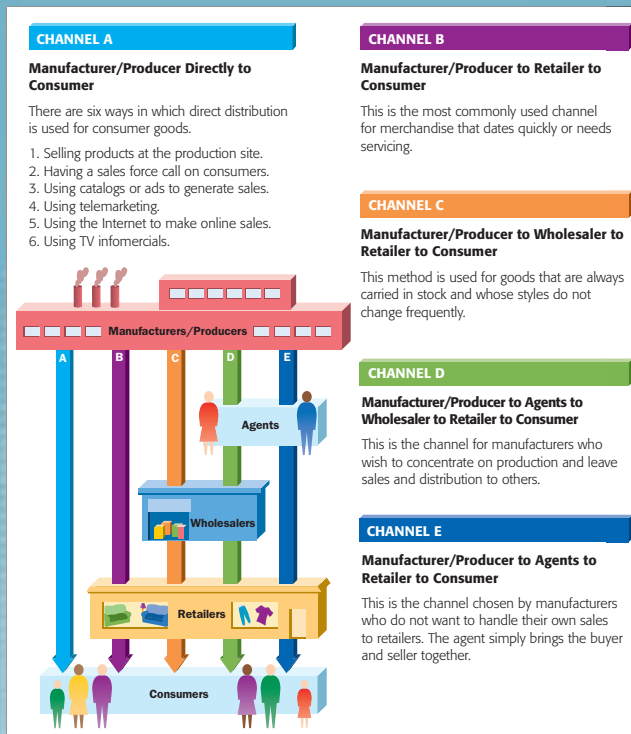
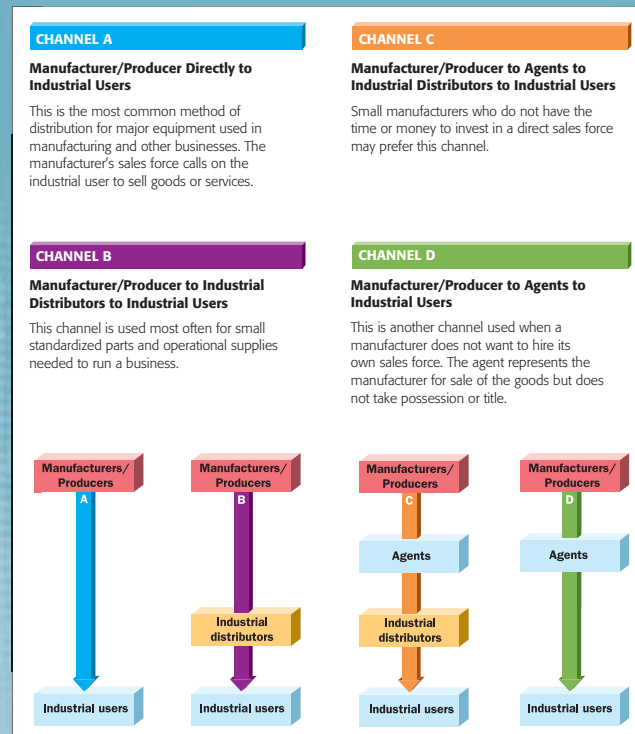


FIGURE 21.2 Distribution Channels—Industrial Products

Industrial buyers have different needs than those of retail buyers, so they use different channels of distribution. The least common channel in the consumer market—direct distribution (Channel A)—is the most common in the industrial market. Which channel is most often used to distribute major equipment used in manufacturing?



EXPLAIN

Visual Literacy

Figure 21.1 Caption Answer Read the figure caption question to students: *Which channel is used most often for items that go out of date quickly or need servicing?* Channel B—Manufacturer/Producer to Retailer to Consumer Then ask these guiding questions to take a closer look at distribution channels for consumer goods.

Guiding Questions

List What are six ways in which direct distribution is used for consumer goods?

selling products at production site; having salesperson call on consumers; using catalogs to generate sales; telemarketing; online sales via the Internet; infomercials

Determine What channel would be used by a manufacturer who wished to concentrate on production and leave sales and distribution to others?

They would most likely use Channel D—Manufacturer/Producer to Agents to Wholesaler to Retailer to Consumer

Critical Thinking

Explain to students that small retailers often cannot match the deep discounts and low prices offered by large retail operations based on their ability to buy directly from the manufacturer. Have students consider and list ways a smaller retailer could compete to keep or gain customers from large chain retail stores. After students have created their lists, ask them to read their lists. Create a class list and display it for all the students to read. **Answers may include:** offer a different selection of merchandise, use a theme, and emphasize personal customer service.

ELABORATE

Visual Literacy

Figure 21.2 Caption Answer Read the figure caption question to students: *Which channel is most often used to distribute major equipment used in manufacturing?* [Channel A—Manufacturer/Producer Directly to Industrial Users](#) Then ask these guiding questions.

Guiding Questions

Explain Which channel would be used by a manufacturer/producer that makes small standardized parts?

They would use Channel B—Manufacturer/Producer to Industrial Distributors to Industrial Users.

Discuss What else might manufacturers offer to retailers?

product information, display materials, and advertising ideas

Mini Projects

Enrichment

Research Paths of Distribution for Consumer Products

Divide the class into small groups. Have each group choose a consumer product that interests them and research its path of distribution. Then have students use the information they collect to create a visual map of the distribution channels used to get the product to consumers. Maps can be created on poster board using paint or ink, or students can use graphic design software to create their visuals. Have groups share their maps with the class and then post them around the room.

Research Paths of Distribution for Industrial Products

Divide the class into small groups. Have each group choose an industrial product and research its path of distribution. Have students interview industrial users to learn how they get their products. Prior to the interviews, students should create a list of question to ask the industrial user. Students should take notes during the interview. Then have students use the information they collect from the interview to create a visual map of the distribution channels used to get the product to industrial users. Maps can be created on poster board using paint or ink or students can use graphic design software to create their visuals. Have groups share their maps with the class and then post them around the room.

Graphic Organizer

Have students fill in this Distribution Channel Members outline using stores, wholesalers, retailers, merchant intermediaries, rack jobbers, agent intermediaries, drop shippers, intermediaries, direct mailers, and independent manufacturers' representatives.

Distribution Channel Members

I. Intermediaries

A. Agent Intermediaries

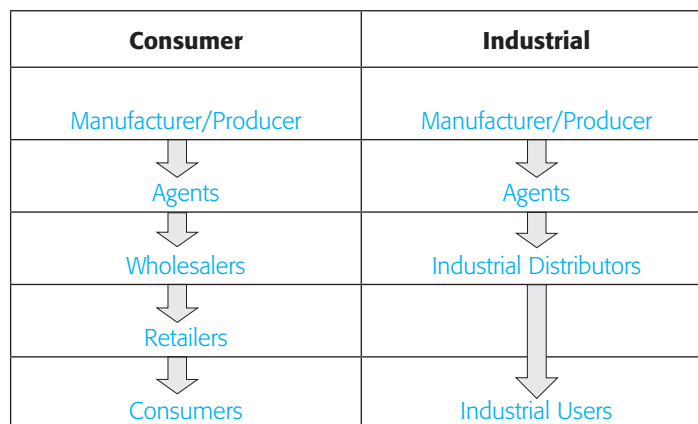
1. Independent manufacturer's representative

B. Merchant Intermediaries

1. Wholesalers
 - a. Rack jobbers
 - b. Drop shippers
2. Retailers
 - a. Stores
 - b. Direct mail operations

Graphic Organizer

Display this diagram and use it to help students compare distribution channels for consumer products and for industrial products. Ask: *What are the five members of the consumer products distribution channel?* [Manufacturer/Producer, Agents, Wholesalers, Retailers, Consumers](#) Ask students to tell you what order to place them in on the diagram. Then ask: *What are the four members of the industrial products distribution channel?* [Manufacturer/Producer, Agents, Industrial Distributors, Industrial Users](#) Ask students to tell you what order to place them in on the diagram. Ask: *Why do you think there are fewer members in the industrial channel?* Sample answer: [Industrial buyers have different needs from those of retail buyers.](#)



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Graphic Organizer Send students to the Online Learning Center to print this graphic organizer.



Eating Local

Eating local means choosing to eat food produced on farms or ranches near home. Local food is fresher, supports local businesses, and uses less fuel for transportation from farm to consumer.

Local Advantage Restaurants that support local and organic farms have a competitive edge with many of today's consumers. Restaurateurs who buy locally often serve seasonal foods that appeal to adventurous diners. They also proudly list suppliers' names on their menus so that customers know exactly where the food was grown.

English Language Arts/Writing Discuss Describe possible benefits to a restaurant owner of buying directly from a farmer rather than through a food wholesaler.

NCTE 12 Use language to accomplish individual purposes.

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Get an activity on green marketing.

EXAMPLES OF CHANNELS OF DISTRIBUTION

Different channels of distribution are generally used to reach the customer in the consumer and industrial markets.

When selling to the industrial market, a manufacturer would sell paper napkins to industrial distributors who, in turn, would sell the napkins to restaurants.

When selling to the consumer market, the company would sell napkins to a wholesaler or use food brokers to sell to retailers, such as grocery stores or party supply shops.

Not every option works best for every product or company. Despite the potential for success, a product can fail with the wrong channel of distribution.

DISTRIBUTION CHANNELS FOR CONSUMER PRODUCTS AND SERVICES

Few consumer products are marketed using direct distribution (Channel A) because most consumers have become accustomed to shopping in retail stores. The most common indirect channel in the consumer market is Producer to Retailer to Consumer (Channel B).

MANUFACTURER/PRODUCER DIRECTLY TO CONSUMER (CHANNEL A)

Direct distribution can be used in six different ways to deliver products to consumers:

1. Selling products at the production site. Examples include factory outlets or farmers' roadside stands.
2. Having a sales force call on consumers at home. Examples include Avon® and Tupperware®.
3. Using catalogs or ads to generate sales.
4. Calling consumers on the telephone (telemarketing). (The National Do Not Call registry has limited this method.)
5. Using the Internet to make online sales.
6. Using TV infomercials.

In this channel, there are no middlemen. That means the prices a customer pays can be low. Retailers do not have to pay rent for a store that houses the goods, agents do not have to be paid commission, and wholesalers do not have to negotiate prices and shipping with retailers and agents. All of these processes increase the final price of the product for the consumer.

MANUFACTURER/PRODUCER TO RETAILER TO CONSUMER (CHANNEL B)

This channel is used most often for products that become out of date quickly or need regular servicing. Clothing and automobiles are sold this way. Chain stores and online retailers use this channel. Retailers do not have to involve agents or wholesalers to acquire their products. The distribution of a product from the manufacturer or producer to the retailer is quick and efficient. The short length of this channel makes it easy for consumers to stay up to date with a company's products at a relatively low price.



Channel A Dell Computers uses channel partnership because it sells via the Internet, so it needs assistance from shippers like FedEx and UPS.

MANUFACTURER/PRODUCER TO WHOLESALER TO RETAILER TO CONSUMER (CHANNEL C)

This method of distribution is most often used for staple goods, which are items that are always carried in stock and whose styles do not change frequently. The manufacturer sells to the wholesaler, who then handles the sales, warehousing, and distribution of the goods to retailers. Consumer goods sold this way include supermarket items, flowers, candy, and stationery supplies.

MANUFACTURER/PRODUCER TO AGENTS TO WHOLESALER TO RETAILER TO CONSUMER (CHANNEL D)

Manufacturers who prefer to concentrate on production and leave sales and distribution to others use this channel. The agent sells to wholesalers who are involved in storage, sale, and transportation to retailers. The retailer then sells to consumers.

MARKETING CASE STUDY

DirectTV's NFL Sunday Ticket

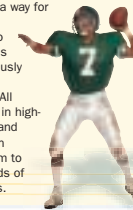


Football fans are a passionate bunch. Few things are more important

to them than their favorite games. Sunday is the big day for professional football. Highlighting fans' football fever, DirectTV® created a TV commercial with a comedian as the "NFL Sunday Ticket" self-help counselor. Celebrities like LL Cool J, Eli Manning, and Peyton Manning also appeared in the ads. DirectTV promoted its product as the ultimate way to deliver the games to viewers.

Delivering More Action

With so many games on any given Sunday, football fans are used to doing a lot of channel flipping. The DirectTV spots advertise the Sunday Ticket service as a way for viewers to watch up to eight games simultaneously on a single television. All games are in high-definition, and DirectTV can deliver them to many brands of cell phones.



Mathematics

Compute Analyze this information: there are 32 teams in the NFL. There are 16 games in the regular season. There are 17 weeks of games. Each team has a bye week during which they do not play a game. How many teams have a bye week each week?

NCTM Problem Solving Solve problems that arise in mathematics and in other contexts.

EXPLAIN

The GREEN Marketer

Answer Read the statement to students: *Describe possible benefits to a restaurant owner of buying directly from a farmer rather than through a food wholesaler. Fresher food, lower cost, and a personal relationship with the seller.*

Ask: *What channel is represented by the restaurant owner buying directly from a farmer? This is Channel B, manufacturer/producer to retailer to consumer. Ask students: How could Channel A be represented if the farmer is manufacturer/producer? Consumers would have to buy directly from the farmer, either at a farm or a farmers market.*

glencoe.com

Worksheet Activity Send students to the Online Learning Center to get a Green Marketer worksheet activity.

Mini Project

Differentiated Instruction

Mathematical Learners

Tell students to assume that the manufacturer sells an item to two chain stores. The first chain store gets 50 percent off the list price. The second chain store does not get 50 percent off the list price, but rather gets the standard 40 percent off and an additional 10 percent off for doing its own distribution. Ask: *Do the two discounts amount to the same dollar amount? Explain your answer. No; the amounts differ because the discounts apply in sequence—if the list price is \$75.59, then the first chain store pays \$37.80 ($\$75.59 \times 0.50 = \37.80) and the second chain store pays \$40.82 ($\$75.59 \times 0.60 = \45.35 ; $\$45.35 \times 0.90 = \40.82).*

ELABORATE



Channel A Have students research other well-known manufacturer/producers to learn what channel(s) they generally use to get their products to consumers. Ask students to share their findings with the rest of the class.

MARKETING CASE STUDY

Mathematics Answer Two teams have byes each week of the season. Tell students that the Marketing Case Study states that with Sunday Ticket, viewers can watch any of up to eight games being played at the same time.

Graphic Organizer

Display these charts. Cross out the members that do not belong in a particular channel.

Distribution Channels—Consumer Products

A	B	C	D	E
Manufacturer/Producer	Manufacturer/Producer	Manufacturer/Producer	Manufacturer/Producer	Manufacturer/Producer
Agents	Agents	Agents	Agents	Agents
Wholesalers	Wholesalers	Wholesalers	Wholesalers	Wholesalers
Retailers	Retailers	Retailers	Retailers	Retailers
Consumers	Consumers	Consumers	Consumers	Consumers

Distribution Channels—Industrial Products

A	B	C	D
Manufacturer/Producer	Manufacturer/Producer	Manufacturer/Producer	Manufacturer/Producer
Agents	Agents	Agents	Agents
Industrial Distributors	Industrial Distributors	Industrial Distributors	Industrial Distributors
Industrial Users	Industrial Users	Industrial Users	Industrial Users

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iWB

Graphic Organizer Send students to the Online Learning Center to print this graphic organizer.

MARKETING

Digital Distribution

When studying channels of distribution, a new option is now available—digital distribution. Digital distribution is a form of direct distribution whereby the product is sold via the Internet in a digital format. For example, Netflix® offers its customer streaming of movies and television online. Customers just need to connect to the Internet to take advantage of this service. Square Enix, maker of role playing videogames is looking to go digital. Rather than buying games in a brick and mortar retailer, Square Enix wants to go change to a direct digital channel of distribution. It could then sell separate chapters of a game for \$5 each via the Internet.

Innovate and Create

Ask students what other products are available via digital distribution. *Almost all computer software can be purchased via digital distribution. All special applications on smartphones are examples of digital distribution. Games on the Internet (i.e., Bridge) are sold via digital distribution. You pay a fee to play Bridge with other people around the world or with a robot. Physical products are also utilizing digital distribution for sales of related merchandise. For example, the Kindle™ and Nook e-readers sell digital books that can be downloaded onto those devices.*



McGraw Hill glencoe.com

eMarketing Worksheet Activity Send students to the Online Learning Center to download an eMarketing worksheet activity.

MANUFACTURER/PRODUCER TO AGENTS TO RETAILER TO CONSUMER (CHANNEL E)

Manufacturers who do not want to handle their sales to retailers use this channel. The agent brings the buyer and seller together. Expensive cookware, meat, cosmetics, and many supermarket items are sold this way. It may be more cost-effective for the company to use agents to sell its products. This choice allows the company's manufacturers to spend time and money creating the best products possible.

DISTRIBUTION CHANNELS FOR INDUSTRIAL PRODUCTS AND SERVICES

Industrial users shop differently and have different needs than consumers, so they use different channels of distribution. The least-used channel in the consumer market—direct distribution (Channel A)—is the most used channel in the industrial market. Often, a business or industry's needs are defined by the products or services it provides. These groups do not have to shop around for different products like consumers do. They already know which products they need.

MANUFACTURER/PRODUCER DIRECTLY TO INDUSTRIAL USERS (CHANNEL A)

This method of distribution is most often used for major equipment used in manufacturing and other businesses. The manufacturer's sales force calls on the industrial user to sell goods or services. For example, a Xerox® sales representative sells copier machines directly to manufacturers and commercial businesses.

MANUFACTURER/PRODUCER TO INDUSTRIAL DISTRIBUTORS TO INDUSTRIAL USERS (CHANNEL B)

This channel is used most often for small standardized parts and operational supplies needed to run a business. Industrial wholesalers (distributors) take ownership of the products, stock them, and sell them as needed to industrial users. A restaurant-supply wholesaler buys pots, pans, utensils, serving pieces, and paper products from various manufacturers to sell to restaurant owners. The industrial user is able to choose from a variety of small standardized products for its business. It would cost a lot of time and money for an industrial user to shop at many different manufacturers or producers.

MANUFACTURER/PRODUCER TO AGENTS TO INDUSTRIAL DISTRIBUTORS TO INDUSTRIAL USERS (CHANNEL C)

Small manufacturers may prefer to use the services of an agent, who represents the manufacturer for sale of the goods. The agent coordinates a large supply of the product. The agent does not take possession or title of the goods, but sells the goods to the industrial wholesaler. The wholesaler in turn stores, resells, and ships them to the industrial user. Agents can work for several producers at one time.

MANUFACTURER/PRODUCER TO AGENTS TO INDUSTRIAL USERS (CHANNEL D)

Some manufacturers cannot afford a sales force, and other manufacturers simply do not want to manage a sales force. These manufacturers use agents to sell their products to industrial users, but they cut out the distributor and ship their merchandise directly to the industrial users. This method keeps distribution costs low. Many types of industrial products are distributed in this manner, including construction equipment, farm products, and dry goods.

There are five channels of distribution to transfer goods from producer to consumer. Which channel was most likely used to transfer the goods like the high-end cosmetics in this photo?



Distribution Channels



After You Read Section 21.1

Review Key Concepts

1. **Identify** the term that describes the path a product takes from producer to final user.
2. **Explain** the function of intermediaries.
3. **Name** the two distribution channels.

Practice Academics

English Language Arts

4. A new sporting goods apparel company plans to sell its products through catalogs and online. As the new marketing manager, you purchased a large list of prospective customers. You want to send catalogs only to people who have an interest in your company's products. Write a catchy, persuasive letter to be e-mailed to prospective customers interested in receiving your catalog.

Mathematics

5. A manufacturer makes an item that costs \$12.50 to produce. The markup when sold to the distributor is 20 percent. What is the cost to the distributor? When the distributor sells this item to the retailer, the markup is 40 percent. How much will the retailer pay?

Math Concept! Computation When figuring a cost after a markup, multiply the original cost by one plus the decimal equivalent of the percent of the markup.

Starting Hints To solve the problem, convert the percents to a decimal for each markup. Multiply the production cost by one plus the decimal equivalent of the distribution markup, or 1.2, to determine the cost to the distributor. Multiply the cost to the distributor by one plus the retail markup, or 1.4, to determine the cost to the retailer.

For help, go to the **Math Skills Handbook** located at the back of this book.

NOTE 5 Use different writing process elements to communicate effectively.

NCTM Number and Operations Compute fluently and make reasonable estimates.

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Check your answers.

ELABORATE

Visual Literacy

Distribution Channels Caption Answer Read the photo caption question to students: *Which channel was most likely used to transfer the goods in this photo?* Channel E—Manufacturer/Producer to Agents to Retailer to Consumer. Then ask these guiding questions to focus the discussion on distribution.

Guiding Questions

Explain Why do manufacturers/producers of items such as cookware, meat, and cosmetics use Channel E?

It may be more cost-effective for the company to use agents to sell its products. By using Channel E the manufacturers can spend more time and money creating better products.

Determine Years ago, salesmen went door-to-door selling encyclopedias and vacuum cleaners. What channel of distribution does this represent?

Channel A—Manufacturer/Producer Directly to Consumer

Critical Thinking

This activity will help students better understand the role of agents in the various distribution channels. Tell students that many of the distribution channels for both consumer and industrial products rely on the services of agents. Ask: *What do real estate agents do?* They find buyers for sellers and sellers for buyers, tasks for which they receive a commission. Real estate agents deal with the buying and selling of property. Then ask: *In general, do the real estate agents own the property they deal with?* No, they are sales agents for the people who wish to sell their property—the agents bring buyers and sellers together. Ask: *How are real estate agents similar to agents who are members of distribution channels?* Agents also act as intermediaries bringing buyers and sellers together; they typically do not own the merchandise they are looking to sell; and they often work for a commission.

EVALUATE

DISTRIBUTION CHANNELS FOR INDUSTRIAL PRODUCTS AND SERVICES

Ask students these guiding questions to direct a discussion on industrial distribution channels.

Guiding Questions

Identify What is the most used channel in the industrial market and the least used channel in the consumer market?

Channel A—direct distribution

Explain Why is direct distribution the most commonly used distribution channel in the industrial market?

Products sold by manufacturers to other manufacturers in the industrial market are often very specialized or very expensive. Thus, direct contact is necessary for a sale to take place.

Determine Which industrial distribution channel would you use for the following: a bull dozer used for making highways; fresh corn; handmade chairs from a small manufacturer; a powerful blow dryer for a beauty shop?

bulldozer—Channel A; fresh corn—Channel D; handmade chairs from a small manufacturer—Channel C; a powerful blow dryer for a beauty shop—Channel B

Reinforce Vocabulary

Industrial—Root Meaning Display the term *industrial* for the class. Ask students what the root word is. **industry** Then ask: *What does the term industry mean?* **manufacturing or production done on a large scale** Ask students to provide examples of industry. **Sample answers:** large companies such as Ford®, Starbucks®, or Microsoft®. Then ask: *How does distribution of industrial products differ from distribution of consumer products?* **Answers may include:** industrial distribution has fewer channels, and the end user of industrial items are not the consumers.



After You Read

Section 21.1

Review Key Concepts

1. The path a product takes from producer to final user is the channel of distribution.
2. The function of intermediaries is to reduce the number of contacts required to reach the final user of the product.
3. Channels of distribution are either direct or indirect.

Practice Academics

English Language Arts

4. Letters should be catchy, persuasive, and formatted for sending via e-mail. Accept all reasonable answers; letters should use proper grammar, spelling, and punctuation.

Mathematics

5. The cost to the distributor is \$15.00 ($\$12.50 \times 1.2 = \15.00). The cost to the retailer is \$21.00 ($\$15.00 \times 1.4 = \21.00).



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Answer Key Send students to the Online Learning Center to check their answers.

READING GUIDE

Before You Read

Connect How might a marketing plan include distribution?

Objectives

- **Explain** distribution planning.
- **Name and describe** the three levels of distribution intensity.
- **Explain** the effect of the Internet on distribution planning.
- **Describe** the challenges of international distribution planning.

The Main Idea

You must know how distribution decisions affect an entire company and how decisions affect international markets and e-marketplaces.

Vocabulary

- Content Vocabulary**
- exclusive distribution
 - integrated distribution
 - selective distribution
 - intensive distribution
 - e-marketplace

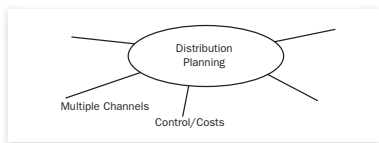
Academic Vocabulary

You will find these words in your reading and on your tests. Make sure you know their meanings.

- control
- maintain

Graphic Organizer

Draw or print this chart to note the main components of distribution planning.



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Print this graphic organizer.

STANDARDS

ACADEMIC

English Language Arts

NCTE 1 Read texts to acquire new information.

Mathematics

NCTM Number and Operations Understand the meanings of operations and how they relate to one another.

NCSS National Council for the Social Studies

NCTE National Council of Teachers of English

NCTM National Council of Teachers of Mathematics

NSES National Science Education Standards



Common Core

Writing Produce clear and coherent writing in which the development, organization, and style are appropriate to task, purpose, and audience.

MARKETING CORE FUNCTION

Channel Management



Section 21.2

Distribution Planning

UNDERSTANDING DISTRIBUTION PLANNING

Distribution planning involves decisions about a product's physical movement and transfer of ownership from producer to consumer. This chapter focuses on transfer of ownership issues. Distribution decisions affect a firm's marketing program. Some of the major considerations are the use of multiple channels, **control** versus costs, intensity of distribution desired, and involvement in e-commerce.

As You Read

Analyze How does the Internet facilitate channels of distribution?

MULTIPLE CHANNELS

A producer uses multiple channels when its product fits the needs of both industrial and consumer markets. For example, a snack food company sells its pretzels, drinks, and cookies to supermarkets, movie theaters, stadiums, and other sports arenas. It also sells to schools, colleges, and hospitals. Each new market poses questions regarding the exact channel of distribution needed to reach it.

CONTROL VERSUS COSTS

All manufacturers and producers must weigh the control they want to have over the distribution of their products versus their costs and profitability. Many businesses have sales representatives who work directly for the company, but there are costs to maintain a sales force. A company can also use a network of independent agents and distributors, but that might result in less control over where its products and services are sold and for how much.

WHO DOES THE SELLING?

A manufacturer must decide how much control it wants over its sales function. It can use its own sales force, or it may decide to hire agents to do the selling.

A direct sales force is costly. In-house sales representatives are on the company payroll, receive employee benefits, and are reimbursed for expenses. The manufacturer, though, has complete control over them. It can establish sales quotas and easily monitor each sales representative's performance.

“Distribution planning involves decisions about a product's physical movement and transfer of ownership from producer to consumer.”

With an agent, a manufacturer loses some of its control over how sales are made. This is because agents work independently, running their own businesses. The agent's interests may not always be exactly the same as those of the manufacturer.

However, the relative cost of using agents can be lower than hiring an in-house sales staff. No employee benefits or expenses must be paid because agents are independent businesspeople. Another benefit is that agents are typically paid a set percentage based on what they sell. This ensures that the cost of selling a product or service is always the same in relation to sales generated.

ENGAGE

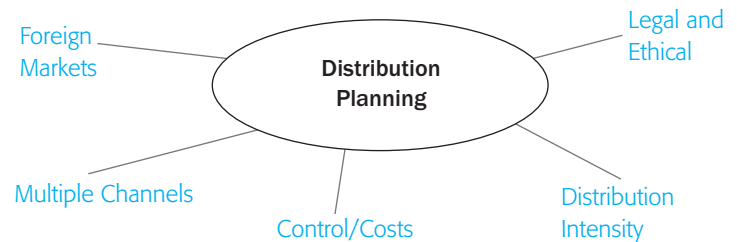
Anticipation Activity

Improving Student Achievement Tell students that distributors in all industries tend to experience pressure from both customers and vendors. Ask: *Why do you think distributors might feel pressure from both sides?* Vendors want their products sold as soon as possible for as much money as they can get; customers want the best price they can get and quick delivery.

Objectives

- **Explain** distribution planning. It involves the physical movement and transfer of ownership of products from producer to consumer
- **Name** and describe the three levels of distribution intensity: exclusive, selective, and intensive
- **Explain** the effect of the Internet on distribution planning. A greater proportion of trade takes place via the Internet.
- **Describe** the challenges of international distribution planning. requires that businesses adjust their distribution systems

Graphic Organizer



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iWB

Graphic Organizer Send students to the Online Learning Center to print this graphic organizer.

EXPLORE



Before You Read

Read the Before You Read question aloud: *How might a marketing plan include distribution?* Marketing plans include: marketing strategies, which include the marketing mix (product, price, place, and promotion—the four Ps). Place includes distribution of the product to the consumer. Ask students how important distribution would be to the marketing plan. It's very important; if the consumer can't get the product, the marketing plan will fail. Also, the cost of distribution must be accounted for in the plan.

Preteaching Vocabulary

Have students go to the Online Learning Center at glencoe.com for the Section 21.2 Preteaching Vocabulary online quiz.

Content Vocabulary

Display the words *exclusive*, *integrated*, *selective*, and *intensive* for the students to read. Ask volunteers to offer definitions for the words. *exclusive*—available to one company or in one area; *integrated*—combined; *selective*—applying only to some, not to all; *intensive*—making heavy use of Tell students to keep these definitions in mind as they read the section on distribution planning and learn about the different types of distribution.

Academic Vocabulary

Control—Usage Have students volunteer sentences in which they use the term *control* (noun). Ask the class to determine whether the term was used correctly. Tell students that the term means the ability to manage or exercise power over something. Sample answers: The owner had control over unnecessary spending. The store owner had to give up some control to the new manager.

Maintain—Usage Have students volunteer sentences in which they use the term *maintain*. Ask the class to determine whether the term was used correctly. Tell students that in marketing, retailers may have to buy and maintain (or keep) a minimum amount of a product to get the best prices.



PROFESSIONAL DEVELOPMENT

MINI CLIP 

ELL: Academic Language

Go to the Online Learning Center for a video in which authors discuss the importance of addressing academic language when teaching English language learners.

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Section 21.2

Distribution Planning

UNDERSTANDING DISTRIBUTION PLANNING

Ask students to recall the members of the distribution channels for consumer products. *manufacturer/producer, agents, wholesalers, retailers, consumers* Then ask students to recall the members of the distribution channels for industrial products. *manufacturer/producer, agents, industrial distributors, industrial users* Tell students that as products flow through these channels, transfer of ownership takes place. Then ask these guiding questions on distribution planning.

Guiding Questions

Provide Examples In addition to snack foods, what products fit the needs of both industrial and consumer markets?

Sample answer: Tires are sold to retailers for purchase by consumers, but they are also sold to car makers to be put on new cars as they are built.

Analyze Why might a producer give up control over sales?

It is less expensive to hire agents to sell products than to have an in-house sales force. Hiring agents means giving up some control over the process.



As You Read

Read students the As You Read question: *How does the Internet facilitate channels of distribution?* E-marketplaces provide one-stop shopping and substantial savings for B2B operations. Online catalogs make it easy for corporate buyers to compare prices and get the best deal for their money.

Expert Advice

Read the quote to students:

“Distribution planning involves decisions about a product's physical movement and transfer of ownership from producer to consumer.”

Ask students to provide examples of transfer of ownership. Answers may include: selling a car to a buyer, selling a house, and so on. Ask: *Have you ever thought that when you purchase an item in a store there is a transfer of ownership?* Explain to students that when a product goes through the channels of distribution, there are sometimes multiple transfers of ownership.

Career Chatroom

Rosemary Coates
President
Blue Silk Consulting

What do you do at work?

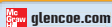
I am a management and systems consultant in a supply chain. I focus on the operations of a company, including forecasting and planning, procurement, manufacturing, import/export, warehousing, logistics, and distribution. I am also an expert in China sourcing and manufacturing, and have traveled all over the world to work on projects.

What is your key to success?

I always put my clients first. I try to understand their business needs and issues, and help them grow profitably. In addition, I believe networking is important. I always try to maintain contact with colleagues and other business associates. Many of them have become lifelong friends.

What skills are most important to you?

In the consulting world, analytical skills are very important. For nearly every project, I collect data, analyze it, and draw conclusions. These conclusions are typically delivered in a written report and a PowerPoint presentation. Communication skills are also extremely important to effectively make arguments to clients.

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Read more about this career and get a Career Exploration Activity.

DISTRIBUTION INTENSITY

Distribution intensity depends on how widely a product will be distributed. There are three levels of distribution intensity: exclusive, selective, and intensive.



EXCLUSIVE DISTRIBUTION

Exclusive distribution involves distribution of a product in protected territories in a given geographic area. Dealers are assured that they are the only ones within a certain geographic radius that have the right to sell the manufacturer's or wholesaler's products. Prestige, image, channel control, and a high profit margin for both the manufacturer and intermediaries are among the reasons that companies choose this distribution strategy.

The exclusive distribution method also encourages distributors to advertise the products they sell and to provide any customer service that might be necessary after the sale. Franchised operations use exclusive distribution planning. An example of this kind of franchised operation is a distributor that supplies a specific name-brand item to all the stores in a particular region.

In addition, wholesalers may sponsor voluntary groups in which a retailer agrees to buy and **maintain** a minimum inventory of the wholesaler's products. One example of a voluntary group sponsored by a wholesaler is the National Auto Parts Association (NAPA). Retailers affiliated with NAPA buy most of their stock directly from NAPA and participate in its promotions.

Some manufacturers own and run their own retail operations. This variation on exclusive distribution is **integrated distribution**. The manufacturer acts as wholesaler and retailer for its own products. For example, Gap® Inc. sells its clothing in company-owned retail stores.

SELECTIVE DISTRIBUTION

Selective distribution means that a limited number of outlets in a given geographic area sell a manufacturer's product. The goal is to select channel members that can maintain the image of the product. These channel members are also good credit risks, aggressive marketers, and good inventory planners.

Intermediaries are selected for their ability to cater to the final users that the manufacturer wants to attract. For example, designers Armani and Vera Wang sell their clothing only through stores that appeal to the affluent customers who buy their merchandise. They do not sell goods in a chain store or a variety store.

INTENSIVE DISTRIBUTION

Intensive distribution involves the use of all suitable outlets to sell a product. The objective is complete market coverage, and the ultimate goal is to sell to as many customers as possible, in all the various locations they shop. A good example of this is motor oil. Motor oil is marketed in quick-lube shops, farm stores, auto-parts retailers, supermarkets, drugstores, hardware stores, warehouse clubs, and other mass merchandisers to reach the maximum number of customers.



Distribution Intensity To select a distribution channel, identify competitors' channels, assess strengths and weaknesses, analyze costs, and decide per your overall plan.

E-COMMERCE

E-commerce actually means "electronic commerce." E-commerce is the process in which products are sold to customers and industrial buyers over electronic systems such as the Internet. You already learned that e-tailing is retail selling via the Internet. This online shopping outlet is called the **e-marketplace**. The amount of business that is now conducted electronically has grown immensely in recent years with widespread Internet usage and the popularity of Web sites that have become online marketplaces.

Travel industry researchers estimate that more than half of all travel bookings were made online in 2010. Consumers have also become accustomed to buying books, toys, and other goods on the Internet. This trend has led to the term "Black Monday," which refers to the first Monday after the start of the holiday shopping season. This Monday after Thanksgiving is the day on which consumer Web site traffic in the United States is traditionally the busiest of the year.

E-marketplaces for business-to-business (B2B) operations provide one-stop shopping and substantial savings for industrial buyers. Online catalogs of products supplied by different companies make it easier for corporate buyers to compare prices and get the best deal.

E-marketplaces provide smaller businesses with the exposure that they could not get elsewhere. Small businesses can also use social networking sites such as Twitter® and Facebook® to share information about their products. These sites allow consumers to see what is available for sale at a company's store. The company can reach consumers directly through the use of the Internet.

In each of the past five years, a greater proportion of B2B trade has taken place via the Internet. For example, many companies with locations in different parts of the country find it more efficient to use dedicated Web sites for restocking and tracking of their office supply needs. This trend is expected to continue in the future.

Reading Check

Identify What are the three levels of distribution intensity?

EXPLAIN

Career Chatroom

Use these questions to focus the discussion about the Career Chatroom feature.

Guiding Questions

Explain Why should international traders travel?

Cultural differences influence the way companies do business.

Predict What analytical skills would you need?

Data collection, data analysis, drawing conclusion

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Career Exploration Send students to the Online Learning Center to read more about this career and to get a Career Exploration Activity.

Mini Project

Enrichment

Research Sales Have students go online to find at least three real-world examples of companies that employ manufacturer's agents/representatives (those who work for several producers and carry noncompetitive, complementary merchandise) and selling agents (who represent a single producer). Have them create a table that indicates the company name, industry, and how they handle their sales. **Sample table:**

Company	Industry	How Sales are Handled

Then ask students how it would affect manufacturer's agents/representatives and agents if a company opened outlet stores for direct sales to the consumer. **this would drastically cut down on sales opportunities for the manufacturers' agents/representatives and agents.**

ELABORATE

DISTRIBUTION INTENSITY

Ask these guiding questions to focus the discussion on distribution intensity.

Guiding Questions

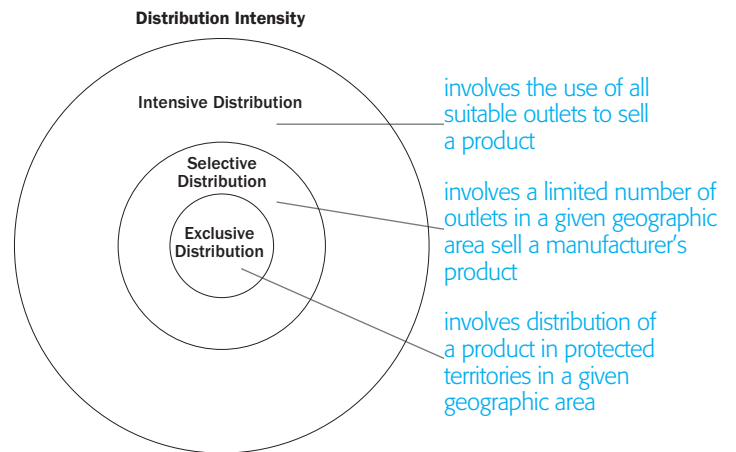
Identify What are the benefits of exclusive distribution?	Benefits include prestige, image, channel control, and a high profit margin for the manufacturer and intermediaries.
Explain What is integrated distribution?	It is a variation on exclusive distribution in which the manufacturers own and run their own retail operations.
Analyze Why would a manufacturer choose selective distribution?	A manufacturer that wanted to maintain the image of its product and to hand pick distributors of the product would likely choose selective distribution.

Critical Thinking

Tell students to imagine that they have created a new product. Ask: *What factors would you need to consider before creating a distribution plan?* They need to consider cost, expenses, brand image, accessibility, and place. Tell them that by knowing these factors, they can begin to generate the appropriate distribution plan. Then tell students that the trend toward manufacturers opening their own stores (such as those in outlet malls) to sell their products is on the upswing. Ask students to speculate how this kind of distribution might help independent retailers increase product awareness. The advertising done by the manufacturer's stores would increase the public's awareness of that brand, which would benefit all retailers that sell that brand.

Graphic Organizer

Display this target diagram. Ask students to explain each type of distribution. Possible answers:



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Graphic Organizer Send students to the Online Learning Center to print this graphic organizer.



Distribution Intensity Have students visit local stores and ask whether they have exclusive distribution rights on any products. If so, have students ask what the products are. Ask students to share their findings with the class.



Reading Check Answer

Read the Reading Check question to students: *What are the three levels of distribution intensity?* exclusive, selective, and intensive Then ask: *What is integrated distribution?* It is a variation on exclusive distribution in which the manufacturer acts as wholesaler and retailer for its own products.

LEGAL AND ETHICAL CONSIDERATIONS IN DISTRIBUTION

In most cases, businesses may use whatever channel arrangement they desire. Laws affecting channels generally prevent exclusionary tactics that might keep other companies from using a desired channel of distribution.

The Clayton Antitrust Act of 1914 prevents exclusive arrangements that substantially lessen competition, create a monopoly, or in which one party did not commit to the agreement voluntarily.

Antitrust laws help to ensure that companies compete fairly with one another for the benefit of consumers. If competing businesses are on an even playing field, it helps ensure that their customers get the best possible deals on products and services.

Some distribution practices meet legal requirements but may be ethically questionable. The American Marketing Association (AMA) Code of Ethics lists the following responsibilities in the area of distribution:

- ▶ Not manipulating the availability of a product for purpose of exploitation
- ▶ Not using coercion in the marketing channel
- ▶ Not exerting undue influence over the reseller's decision to handle the product



Reading Check

Evaluate Is it legal to tell a customer you do not have a product even when you do?

Intensive Distribution

Palm® distributes cell phones through several different retail and e-tail stores. **What benefits does intensive distribution provide for Palm?**



DISTRIBUTION PLANNING FOR FOREIGN MARKETS

Foreign market environments require that businesses adjust their distribution systems. They also give businesses a chance to experiment with different distribution strategies. For example, when McDonald's® first enters a foreign market, it opens company-owned stores to familiarize the consumer with its products and store atmosphere. This means the company is both the producer and the retailer. After company-owned stores have opened the market, the company switches over to selling franchises. At that point, the company acts as both producer and agent, and the franchisee is the retailer.

Cultural considerations should also be weighed when planning distribution in world markets. For example, when Reebok® wanted to sell athletic shoes in Europe, it studied European culture and found that Europeans visit sporting goods stores far less often than Americans. The company decided to distribute Reebok's shoes through hundreds of traditional retail shoe outlets instead of sporting goods stores. Within one year of adopting this distribution strategy, Reebok's sales in France doubled.



After You Read

Section 21.2

Review Key Concepts

1. **Explain** why a company would decide to use multiple distribution channels.
2. **List** the reasons a company would choose a direct sales force.
3. **Name** two advantages that e-commerce provides for B2B sales.

Practice Academics

English Language Arts

4. As secretary for the local association of retail florists, you have been asked by the association president to write to a local wholesale florist who has been selling to the final consumer. Give at least two reasons in your letter why the retail florists are upset about this.

NOTE 12 Use language to accomplish individual purposes.

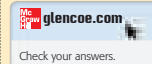
Mathematics

5. Assume Manufacturer A had sales of \$2,500,000 and sales expenses of 6 percent for outside sales agents. Manufacturer B, a rival company, had sales of \$4,250,000 for the same period. Its sales expenses were \$400,500. Which company had the lower rate of sales expenses?

NCM Number and Operations Understand meanings of operations and how they relate to one another.

Math Concept! Relationships Among Numbers Determining the significance of numbers can be critical to problem solving.

Starting Hints To solve the problem, write the sales expenses as decimals. Multiply the decimal by the respective total sales. Compare both numbers to determine which company had the lower rate of sales expenses.



For help, go to the **Math Skills Handbook** located at the back of this book.

ELABORATE

LEGAL AND ETHICAL CONSIDERATIONS IN DISTRIBUTION

Ask students if they are aware that there are laws that govern distribution channels and other business issues such as monopolies. Then ask these guiding questions to focus the discussion on laws and ethics in distribution.

Guiding Questions

Explain What does the Clayton Antitrust Act of 1914 prevent?

exclusive arrangements that substantially lessen competition, create a monopoly, or in which one party did not commit to the agreement voluntarily

Differentiate What is the difference between practices that are illegal and those that are unethical?

Illegal practices can result in jail time or heavy fines. Unethical acts probably cannot be prosecuted or monitored.



Reading Check Answer

Read the Reading Check question to students: *Is it legal to tell a customer you do not have a product even when you do?* According to the AMA Code of Ethics, it is unethical to manipulate the availability of a product for the purpose of exploitation. It is also unethical to lie to a customer.

Mini Project

Enrichment

Interview Retailers Have students interview local retailers or wholesalers about ethical issues they have come across regarding product distribution. Students might work in pairs to develop a list of questions. Then have students set up an appointment to speak to the business owner or manager. After students have conducted their interviews, ask them to share their results with the class. *Answers might include such issues as environmental responsibility in using local producers to cut down on the amount of fuel that is used to transport products.*

EVALUATE

DISTRIBUTION PLANNING FOR FOREIGN MARKETS

Tell students that when companies in the United States decide to do business in foreign countries, they must conduct intensive cultural studies of those countries to learn the customs and to avoid insulting the people of the country. This information can affect the way the products are distributed and marketed. Ask students these guiding questions to focus a discussion about distribution planning and foreign markets.

Guiding Questions

Explain Why would a company like McDonald's® open a company-owned store when first entering a foreign market?

allows the company to familiarize the consumer with its products and store atmosphere; the company to familiarize itself with the population.

Determine In the case presented in the text, how was McDonald's both the producer and the retailer?

Owning their own stores and selling directly to the consumer made them both producer and retailer.

Predict What might have been the outcome if Reebok® had not studied European culture before marketing their shoes in Europe?

If they had sold the shoes in sporting goods stores, they might not have been successful in the European market.

Mini Project

Extension

Inventory Products Have students take an inventory of products in their homes that are made in foreign countries. Products can be clothing, electronics, even automobiles. Ask students to create a table that lists the products in one column and the country of origin in the other column. (See sample table below.) Then have them select one product to research. Ask them to describe the distribution process for that product's trip to the United States and to their local retailer. [Sample answer for a car made in Mexico: Channel B—Manufacturer/Producer to Retailer to Consumer.](#)

Product	Country of Origin
Car	Mexico
Computer	Japan



After You Read

Section 21.2

Review Key Concepts

1. A producer uses multiple channels when its product fits the needs of both industrial and consumer markets.
2. A company would choose a direct sales force when they want complete control over the sales; when they want to establish sales quotas; and when they want to monitor each sales representative's performance.
3. E-marketplaces for B2B operations provide one-stop shopping and substantial savings for industrial buyers. Online catalogs of products supplied by different companies make it easier for corporate buyers to compare prices and get the best deal. E-marketplaces provide smaller businesses with the exposure that they could not get elsewhere.

Practice Academics

English Language Arts

4. Reasons might include the retailers cannot match the wholesalers' prices to the customer and the wholesaler is taking customers away from the retail florists. Accept all reasonable answers; letters should use proper grammar, spelling, and punctuation.

Mathematics

5. Manufacturer A had the lowest rate of sales expenses—6% as compared to 9.4% for Manufacturer B. (Manufacturer B = $\$400,500 \div \$4,250,000 = .094$)

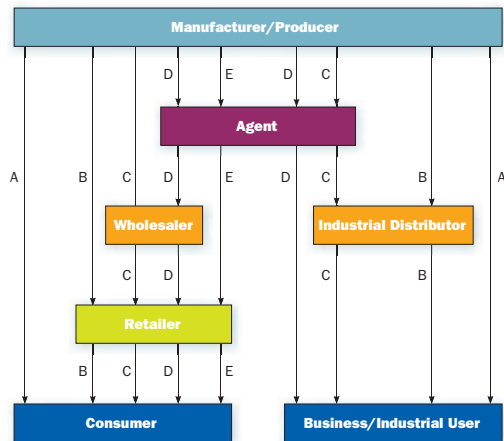


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Answer Key Send students to the Online Learning Center to check their answers.

Channels of Distribution

Manufacturers or producers may choose one or more paths (channels) to distribute products to the final user.



Written Summary

- Manufacturers or producers may choose one or more paths (channels) to distribute products to the final user.
- The channels used to distribute consumer products usually differ from those used to distribute to the industrial market.
- Manufacturers or producers may use multiple channels of distribution to reach different markets. Product distribution in foreign markets often requires special planning.
- Distribution intensity may be exclusive, selective, or intensive.

Review Content Vocabulary and Academic Vocabulary

1. Explain how each term relates to the subject of the chapter or the unit.

Content Vocabulary

- channel of distribution (p. 493)
- intermediaries (p. 493)
- wholesalers (p. 493)
- rack jobbers (p. 493)
- drop shippers (p. 494)
- retailers (p. 494)
- brick-and-mortar retailers (p. 494)
- e-tailing (p. 494)

- agents (p. 495)
- direct distribution (p. 495)
- indirect distribution (p. 495)
- exclusive distribution (p. 504)
- integrated distribution (p. 505)
- selective distribution (p. 505)
- intensive distribution (p. 505)
- e-marketplace (p. 505)

Academic Vocabulary

- commission (p. 493)
- automatic (p. 494)
- control (p. 503)
- maintain (p. 504)

Assess for Understanding

- Explain** What is the place decision?
- Name** What is another term for intermediaries?
- Identify** What are two types of intermediaries?
- List** What are four non-store retailing methods?
- Distinguish** What are the most common methods of distribution for consumer products and for industrial products?
- Generate** What are some questions to consider in establishing a distribution plan?
- Contrast** When would it be beneficial to use exclusive distribution rather than intensive distribution?
- Describe** What is the difference between the cost of having a direct sales force and the cost of using independent sales agents?

EVALUATE

Visual Summary

Express Creativity Ask students to develop their own visual summary of a concept in the chapter. Encourage students to use different formats for their visual summaries, such as a storyboard, a timeline, a table, a tree diagram, or a word web. *Visual summaries will vary depending on the concept depicted and the visual manner in which it is depicted. Questions to ask when assessing a visual summary include:*

- Is the summary clear, economical, and simple?
- Are any important steps left out?
- Are steps or concepts arranged in the same order as the original?
- Does the summary reveal a pattern that connects the details?
- Does the summary locate and highlight the most important information?

Review Content Vocabulary and Academic Vocabulary

1. A **channel of distribution** is the path a product takes from its producer or manufacturer to the final user. Members of the channel include **intermediaries**, **wholesalers**, **rack jobbers**, **drop shippers**, **retailers**, **brick-and-mortar retailers**, and **agents**. Online retailing, called **e-tailing**, is also a member of the channel; this online shopping outlet is called the **e-marketplace**. There are **direct** and **indirect channels of distribution** and there are a number of types of distribution such as **exclusive**, **integrated**, **selective**, and **intensive distribution**. Channel members called agents receive **commissions**. **Automatic** retailing (vending machines) is a type of non-store retailing operations. **Control** versus costs is a consideration when making distribution decisions. Wholesalers may sponsor voluntary groups in which a retailer agrees to buy and **maintain** a minimum inventory of the wholesaler's products.

EVALUATE**Assess for Understanding**

2. A place decision means deciding how a product will reach the customer, that is, what channel or channels of distribution will be utilized.
3. Another name for intermediaries is middlemen.
4. Two types of intermediaries are merchant intermediaries and agent intermediaries.
5. Non-store retailing methods include vending machines, direct mail and catalog retailing, TV home shopping, and online retailing.
6. The most common method of distribution for consumer products is producer to retailer to consumer (Channel B). The most common method in the industrial market is direct distribution (Channel A).
7. Key questions include the use of multiple channels, control of sales versus cost of sales, intensity of distribution desired, and use of e-commerce.
8. Prestige, image, channel control, and a high profit margin for both the manufacturer and intermediaries are reasons to choose this distribution strategy. This method of distribution also encourages distributors to advertise the products and provide necessary after-sales customer service.
9. A direct sales force is usually more expensive than sales agents. An in-house or direct sales force gives the producer more control over the product than they get with sales agents.

Chapter 21 Review and Activities

21st Century Skills

Communication

10. Distribution in Other Cultures Identify a company. Explain how it might want to distribute its products in another country. Select the country and explain why you chose the distribution channel.

Financial Literacy Skills

11. Distribution Planning It costs you \$4.95 to make a graphic t-shirt. You are considering selling the shirts to wholesalers and retail stores. A wholesaler will buy 500 shirts for \$3595. Retail stores will buy 100 shirts for \$645. What will your profit be per shirt from each distribution channel?

Everyday Ethics

12. Power Source More than half the electricity generated in the United States comes from coal. It is extracted through traditional mining and by mountaintop removal, a process that blasts away the tops of mountains to reach the underlying veins of this fossil fuel. However, mountaintop removal damages the environment in ways that cannot be undone. Discuss whether it is ethical to blast away mountaintops to make the production and distribution of coal easier.

e-Marketing Skills

13. E-Commerce and Distribution Conduct research on the effect of e-commerce on the channels of distribution used for consumer and industrial products. Write a report summarizing current information about types of products sold and dollar sales figures for those products.

Build Academic Skills

Science

14. The Impact of Technology The process of distributing products uses a wide range of technologies. From the vehicles used to transport goods to the Internet and e-commerce, there are many ways to reduce costs and modify product distribution. What are some technologies or gadgets you use that may be helpful to distributors? Share your ideas with your class.

NSES A Develop abilities necessary to do scientific inquiry, understandings about scientific inquiry.

Social Studies

15. Planning for Global Distribution You have just been hired as a marketing consultant for an automobile accessories manufacturing company that wishes to expand its business worldwide. Your job is to develop a plan for sales and distribution of their products in the global market. Research the steps that must be taken to begin selling the company's products in European, Asian, and South American countries. Describe what considerations should be given to differences in culture. Write a two-page report on your findings.

NCSS V B Individuals, Groups, & Institutions Analyze group and institutional influences on people, events, and elements of culture in both historical and contemporary settings.

Mathematics

16. Calculate Savings The price of a best-selling DVD is \$19.00 at a local store. You can purchase the same DVD through an e-tailer for \$10.20 plus 20 percent for shipping charges. How much will you save by purchasing the DVD through the e-tailer?

NCTM Number and Operations Compute fluently and make reasonable estimates.

Math Concept | Computations Calculating the amount saved by purchasing one product instead of another involves comparison.

For help, go to the **Math Skills Handbook** located at the back of this book.

Standardized Test Practice

Directions Read the following questions. On a separate piece of paper, write the best possible answer for each one.

- In distributing products from the producer to the consumer, which of the following could be a channel member?
 - Wholesaler
 - Retailer
 - Agent
 - All of the above
- True or false? Direct distribution occurs when goods are sold by the producer directly to the consumer.

T
F
- The businesses that move products from the manufacturer to the final user are called _____.

Test-Taking Tip

In a true or false test, every part of a true statement must be true. If any part of the statement is false, the answer has to be false.



DECA Connection Role Play

Owner Wholesale Kitchen Appliance Company

Situation Your company sells the finest kitchen appliances available. You have agreements with all of the appliance manufacturers whose appliances your company offers for sale that you have selective distribution of their appliances.

Earlier this week you finalized an agreement to become the exclusive distributor for the most sought-after brand of European kitchen appliances. The European brand represents a significant financial investment for your company. You feel that the investment is worthwhile because of the quality of the appliances and the prestige of distributing these appliances. Your exclusive distribution rights mean that your company will be the only one in this country to sell the European brand.

You are very happy about selling the European appliance line and the potential it offers your company. You have called a special staff meeting to announce that your company is the country's exclusive distributor of the European appliance line.

Activity You are to explain to your employees (judge) the significance of your company being the exclusive distributor of the European appliances line. You must also explain exclusive distribution and how it differs from the selective distribution of your other appliance lines.

Evaluation You will be evaluated on how well you meet the following performance indicators:

- Explain the nature of channels of distribution.
- Explain the nature of channel-member relationships.
- Explain the nature and scope of channel management.
- Explain legal considerations in channel management.
- Explain ethical considerations in channel management.

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Download the Competitive Events Workbook for more Role-Play Practice.

EVALUATE

21st Century Skills

Communication

10. Accept all reasonable answers; students should use proper grammar, spelling, and punctuation. Students' answers will vary but should show an understanding of the effects of the distribution channels. A sample answer might be to select China as the country in which to distribute products, and then choose either channel D or E so that the products go through an agent before going to the retailer and consumer. An agent is important in international sales because it is necessary to go through someone who understands the culture where the products will be sold.

Financial Literacy Skills

11. Profit from wholesaler = \$2.24 ($\$3595 \div 500 = \7.19 ; $\$7.19 - 4.95 = \2.24). Profit from retailer = \$1.50 ($\$645 \div 100 = \6.45 ; $\$6.45 - 4.95 = \1.50).

Everyday Ethics

12. Answers will vary, but students should provide a rationale for their answers. Sample answers: Students who consider it to be ethical to mine by removing mountaintops might suggest that this type of mining helps to keep the cost of the fuel down and therefore makes it more affordable for those who use it. Those who think it is unethical to mine this way will likely cite the irreversible damage to the environment as their reasoning.

e-Marketing Skills

13. Students should use online or current library sources for their research. They should gather information and organize it in a logical order. Use criteria similar to the following to evaluate students' reports:

Are the sources current?

Are the sources cited in the report?

Does the report include a thesis statement?

Is the thesis statement supported throughout the report?

Are sentences logical and well-composed?

Are there grammar or spelling errors?

EVALUATE

Build Academic Skills

Science

14. Students might discuss the use of computers and different apps on smartphones. Encourage students to think creatively and come up with some outside-the-box ideas for distributing products.

Social Studies

15. Students' reports should cover a number of topics such as trade agreements, trade barriers, economic factors, political factors, trade regulations and laws, socio-cultural factors, technological factors, product adaptation or customization (you might refer students to Chapter 4, Global Analysis, for some background information).

Mathematics

16. $\$6.76$ [$\$19.00 - (\$10.20 + (\$10.20 \times .20)) = \$19.00 - (\$10.20 + 2.04) = \$19.00 - 12.24 = \$6.76$]

Standardized Test Practice

1. D All of the above
2. T
3. intermediaries or middlemen

DECA Connection Role Play

Evaluations will be based on these performance indicators:

1. **Explain the nature of channels of distribution.** The channel of distribution is the path a product takes from its producer or manufacturer to the final user. When the product is purchased for use in a business, the final user is classified as an industrial user. When the product is purchased for personal use, the final user is classified as a consumer.
2. **Explain the nature of channel-member relationships.** Businesses involved in sales transactions that move products from the manufacturer to the final user are intermediaries or middlemen. Intermediaries reduce the number of contacts required to reach the final user of the product.
3. **Explain the nature and scope of channel management.** Distribution planning involves decisions about a product's physical movement and transfer of ownership from producer to consumer. Distribution decisions affect a firm's marketing program. Some of the major considerations are the use of multiple channels, control versus costs, intensity of distribution desired, and involvement in e-commerce.
4. **Explain legal considerations in channel management.** In most cases, businesses may use whatever channel arrangement they desire. Laws affecting channels generally prevent exclusionary tactics that might keep other companies from using a desired channel. The Clayton Antitrust Act of 1914 prevents exclusive arrangements that substantially lessen competition, create a monopoly, or in which one party did not commit to the agreement voluntarily. These laws help companies compete with each other for the benefit of consumers. A fair playing field will ensure that customers get the best possible deals on products.
5. **Explain ethical considerations in channel management.** The American Marketing Association (AMA) Code of Ethics lists the following responsibilities in the area of distribution: Not manipulating the availability of a product for purpose of exploitation; not using coercion in the marketing channel; not exerting undue influence over the reseller's decision to handle the product.

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Role Plays For more DECA Role Plays, send students to the Online Learning Center to download the Competitive Events Workbook.