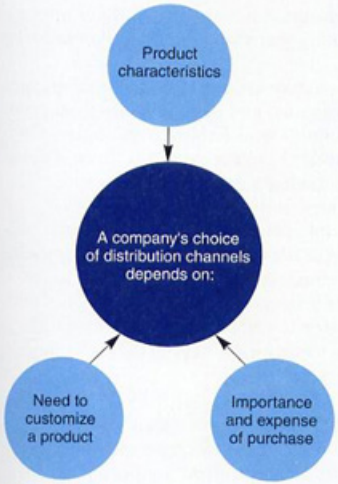


Figure 11.3
Factors Affecting the Distribution Mix

products can only be evaluated thoroughly *after* they are purchased and used over long periods of time. The reliability of a new car or appliance, for example, might take years to evaluate. (By contrast, I know if an apple is rotten the moment I bite into it.)

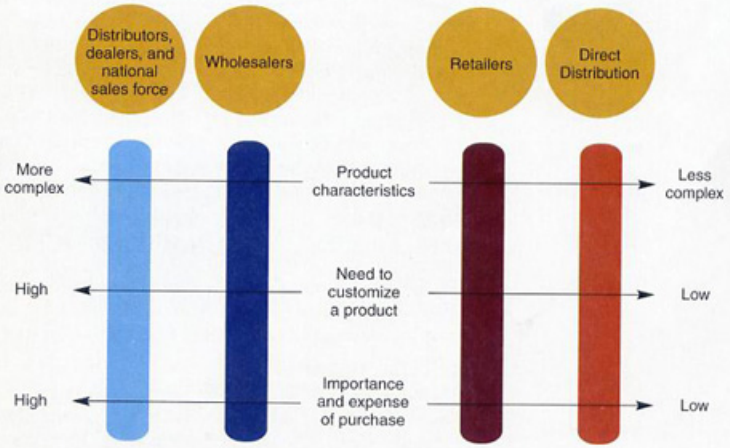
Companies that make and sell complex products must do more promotion and sales to inform and persuade customers to buy them. Aligning a complex product with customer needs therefore requires greater communication between the buyer and seller. Companies selling apples or table salt do not need to provide customers with as much information about their products. By contrast, a carmaker has to provide glossy brochures, a 100-page operating manual, and employ salespeople to educate customers. This necessitates that companies "get close to customers." Companies that make complex products get close to their customers by choosing a distribution mix that uses distributors, dealers, or a national salesforce, as illustrated in Figure 11.4. Each of these channels involves the use of a highly trained team of sales and service specialists who can provide customers with information and promote a product's qualities and features. A company with an established dealer network is also in a position to assure customers that it can provide excellent after-sales support if problems do occur.

On the other hand, when a company sells less-complex products that customers can easily evaluate for themselves, it usually distributes the products through wholesalers and retailers or distributes them directly to the final customer. Advertising becomes the most important way to promote products distributed via these channels.

THE IMPORTANCE OF THE PURCHASE TO THE FINAL CUSTOMER

Some companies make products that customers have to give considerable thought to before purchasing. Expensive products such as luxury cars, ERP software, and heavy earth-moving equipment are examples. Because these purchases require spending large amounts of money, buyers actively seek out information about their quality versus the quality of competing products. The more significant a purchase of a product is to customers, the more likely a company is to use distributors, dealers, or a national salesforce to sell that product. Like with complex products, well-trained salespeople

Figure 11.4
The Choice of Distribution Mix



Companies that use these three factors to determine the distribution mix obtain a competitive advantage.

must be on hand to provide customers with information and "coach" them through the buying process. However, this also gives the company more control over how the product is marketed and sold.

By contrast, some companies make relatively inexpensive products that are bought by millions of buyers every day. Products such as soap and detergent and food products made by companies such as Procter & Gamble and Kraft are examples. Consumers don't spend much time making these kinds of buying decisions. Even if a customer decides he or she made a mistake after buying a product, all is not lost. The customer has only spent a small amount of money on the product, after all. Like less-complex products, when a product is relatively inexpensive and a less-significant purchase, the company uses intermediaries to get it to the customer. Once again, promotion through advertising is much more cost effective than using a salesforce to reach customers. Companies that make less-expensive products nonetheless work hard with their distributors and retailers to find the best ways to display and sell them. The goal of companies selling standardized products is to make the products "stand out" in stores so that they are easily visible to customers.

THE NEED TO CUSTOMIZE A PRODUCT The second factor that affects the type of distribution and sales mix a company uses is the degree to which specific knowledge about the customer must be collected to customize the product to meet their needs. If a company makes or provides a customized product, salespeople will need to collect a great deal of information about what exactly the customer wants. Health insurance policies, mortgages, and custom homes are examples of products that fall into this category. A lot more face-to-face or phone contact is required in this case. By contrast, if a company makes a standardized product that it offers to everyone, such as a can of beans or a ream of paper, little or *no* customer contact is required in the selling process. Customers simply evaluate the qualities and features of competing products and then decide which one to buy.



Video Small Business in Action

Outsourcing

A polarizing debate concerning the outsourcing of U.S. jobs overseas is featured in this *BusinessWeek* TV video on your Student DVD. On the one hand, companies see outsourcing as a strategic approach to realize cost savings and improved efficiencies that will actually increase jobs over the longer term. For example, projections show an increase of 317,367 new jobs by 2008. For example, in order to achieve the longer-term increase in jobs, there will be a 21 billion dollar savings by exporting computer jobs overseas. These new jobs will be higher skilled and better paying. Furthermore, the low technology, low skill jobs that are being outsourced are no longer aligned with the skill level and needs of the modern U.S. workforce.

The other side of the debate suggests that companies who use outsourcing as an employment strategy are engaged in unethical business practices. Proponents of this view see the exportation of jobs "offshore" as a direct cause of the loss of U.S. jobs. The issue of outsourcing can be seen across industries with two notable exceptions: health care and education.

The debate does not show any sign of abating. Regardless, the data show clearly that the best jobs go to those with the best skills. That means that there is a need to focus on increasing the skill level of the U.S. labor force.

Discussion Questions

1. What are many businesses doing in today's economy to reach and attract more customers? Would these methods potentially lead to outsourcing?
2. Health care and education seem to be immune to outsourcing. Using the material from the chapter, cite reasons for this phenomenon?
3. Is the process of Customer Relationship Management (CRM) appropriate for outsourcing?

Collecting information about specific customers is a demanding and time-consuming sales activity. It greatly increases the costs of managing the distribution and selling process. This explains why companies that sell complex, expensive, or customized products also choose a distribution mix based on the use of distributors, dealers, or employ a national salesforce to get the word out and promote their products. By contrast, the more standardized or inexpensive the product a company makes, the more likely the company is to use advertising, intermediaries, and direct distribution to sell to the final customer.

Gaining a Competitive Advantage with the Right Distribution Mix

Companies that choose the right distribution mix are able to achieve a competitive advantage by reaching a large number of buyers through most cost-efficient channels. Avon is one of these companies. Cosmetics are complex products. Users often have a hard time figuring out what kinds of cosmetics and colors work best for them. Trained facial and makeup artists are needed to help customers decide which type of cosmetics best suit their personal skin tones and how best to apply them. Obviously, cosmetics affect the way people look and their appearance is an important concern to most people. Because many brands of cosmetics are expensive, buyers often welcome the advice of trained salespeople like Avon has. Avon also recruited younger salespeople and began selling its products in departments stores. This distribution mix is working well for Avon.



Rather than using a national salesforce to demonstrate their luxury cosmetics lines like Avon does, Estee Lauder and Lancome use makeup specialists located in department stores. Avon is now also using this distribution channel, as well as the Internet to sell its products.

Interestingly, cosmetic companies like Revlon, which primarily distribute and sell their low-priced cosmetics through drug and discount stores, have run into major financial problems recently. Customers are less attracted to their products even though they charge much lower prices for them. In many cases, the lower prices that consumers have to pay for these cosmetics still doesn't compensate them because the failure rate of the products is so high (because the customer has chosen the wrong color and so forth, because of lack of advice). This puts Revlon and other companies using this channel at a competitive disadvantage. Some of these firms and their retailers are now attempting to overcome this problem by offering unconditional money-back guarantees to buyers who end up with cosmetics they don't like. As you can see, a company must select the most cost-effective distribution channels it can. But it also has to balance this priority against its need to attract as many customers as possible.

THE IMPACT OF IT As we note earlier, advances in IT are dramatically changing distribution methods. These days, customers can even customize products themselves online. For example, using Expedia.com, we can all customize our own vacation packages or our stock portfolios on E*Trade. BMW allows would-be car buyers to create their "ideal" cars on its Web site. Retail clothing stores like Sears and The Gap allow their customers to input their physical dimensions online so they can see how different types of clothing will fit them.

This "self-entered" data is making it much easier for companies to collect information about their customers, which is actually making it less complex and easier to distribute and sell products to them. More companies have become motivated to directly distribute their products online as a result. Take the banking industry, for example. There are now a number of banks that exist only "virtually." So far, no