# 10

## How to manage your distribution strategy

Chapter objectives

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Channel coverage

Distribution and market exposure

Direct versus indirect distribution

Making the channel decision

Channel control

Selecting distributors

Evaluating distributors

Best practices

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## Chapter objectives

**After reading this chapter, you should be able to:**

- **Develop the primary strategies for moving a product to its intended market.**
- **Explain the criteria for choosing channels of distribution.**
- **Identify techniques for evaluating supply chain performance.**

The ultimate success of your business strategy depends on moving your product to its intended market. Accordingly, you should take considerable care in selecting supply chain strategies and considering the far-reaching impact of channel decisions.

Such decisions involve:

1. The long-term commitment to the supply chain.
2. The amount of geographic coverage needed to maintain a competitive advantage.
3. The possibility of competitive inroads.

## Channel commitment

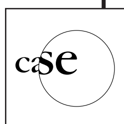
Your initial step in developing a channel strategy is to review the categories of products being sold by your company and their respective market coverage.

Consider these criteria:

- Specialty products do best with exclusive (restricted) distribution.
- Convenience products do best with intensive (widespread) distribution.
- Shopping products do best with selective (high sales potential) distribution.

Next, determine if existing channels provide adequate market coverage and if there are expansion possibilities to which you can make a commitment.

The following case illustrates one dimension of a distribution strategy:




### Ryerson, Inc.

The company is a leading distributor and processor of metals. Ryerson's products include aluminum, copper, and industrial plas-



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tics. Operating within a well-managed supply chain, the company buys bulk metal products in the shape of sheets, bars, and other forms from metal producers. Then it processes them into smaller lots to meet the specifications of its customers – machine shops, fabricators, metal producers, and machinery makers.

With a seamless focus on its customers and suppliers; and with meticulous attention to the smooth flow of products throughout the supply chain, Ryerson achieved one-year (2005) sales growth of an outstanding 75.1%.

Ryerson's innovative and take-charge distribution strategy satisfies the surging demand of customers who want delivery on time, when they want it, and without the financial and physical burdens of carrying excessive inventory.

Further, by not limiting itself to domestic markets, Ryerson is exporting the same distribution model to its operations in Canada, China, and India.

### Action strategy

What can you learn from the Ryerson case? If Ryerson's successful distribution strategy arouses you to check up on how your firm distributes products, then consider these factors:

1. Enhancing your present distribution network or creating a new one affords a prime opportunity to unseat a channel leader or deter a challenger. Begin by tailoring distribution to each major market segment, weighing the following alternatives:
   - **Direct versus distributors**: Whereas there may be a tendency to eliminate the middleman from the supply chain and thereby permit direct access to the end user, be certain that you can maintain the flexible response to customers' increasing demands.
   - **Distributors versus brokers**: Whereas distributors typically carry inventory and brokers do not, question how each would serve market niches in light of customers' need for critical delivery schedules, immediate customer assistance, and storage requirements.
   - **Distributors versus retailers**: Pinpoint how each of these two options is efficient. Take into account quantities purchased, services rendered, and access to technical backup.



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- **Exclusive versus non-exclusive outlets**: Weigh up the pros and cons. Exclusivity may constrict a channel's breadth of coverage, yet provide compensating service and commitment benefits. On the other hand, non-exclusive outlets may broaden overall availability, but impair the level of commitment required for your product line.

2. Infusing value-added services into your supply chain strategy may provide enough differentiation that will save your product from becoming a commodity. For example, consider the following value-added strategies:
   - Make use of greater mobility by following your customers into growth segments and satisfying their logistical needs.
   - Develop one-stop-shopping that allows buyers to order a variety of related products with ease, convenience, and volume discounts. The combined effect would make it harder for competitors to gain a foothold in the supply chain network.
   - Centralize the delivery of technical training, customer service, and reliable after-sales support – while providing an infrastructure from which to launch into new segments.
   - Install an Internet ordering and computer-based stocking system that links customers with your operations, thereby creating an electronic stronghold making it difficult for competitors to disengage your customers.

## Channel coverage

### Choosing channels of distribution

There are at least three noteworthy considerations related to distribution channel coverage:

1. It involves long-term commitments to other firms.
2. It delimits the portion of the market that you can reach.
3. It affects all other marketing decisions.



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What follows are guidelines for you to use in deciding on market coverage:

### 1. Channel coverage involves long-term commitments to other firms

Once chosen, distribution channels typically develop a great deal of inertia against change. Your choice of a channel type associates your brand in the consumer's mind with a certain kind of store or outlet, thus creating an image that is difficult, if not impossible, to alter.

Signing up individual wholesalers or retailers often involves substantial up-front outlays. This money is usually spent for:

- Factory training of service personnel
- Workshop and field training of sales personnel
- Granting of easy terms for initial stock
- Advertising and promotional support
- Field sales support through missionary salespeople.

These and many other investments and commitments would be wasted if you were to abandon these channel partners.

Remember, too, that it would hardly sit well with the trade if you walked away from your commitments. Your channel partners also would resent and resist any infringement on their franchise by your adoption of a multiple-channel strategy for the same brand.

### 2. Channel coverage delimits the portion of the market that you can reach

Your selection of channel members restricts the kinds and numbers of ultimate buyers that can be reached through them, effectively cutting you off from that part of the market that does not patronize those outlets. Of course, your selection of outlets may coincide with your desired target market, in which case your neglect of the remainder of the market is deliberate.

But what if you can't attract the kinds of stores or outlets that cater to the group of consumers you wish to reach? Then you have to settle for what you can get. To avoid this trap, your product, your price, and your support must satisfy the intermediaries you want to win over.



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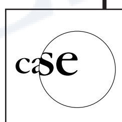
### 3. Channel coverage affects all other marketing decisions

The interdependence of marketing mix decisions is most evident when choosing distribution channels. If you choose a pattern of exclusive distribution, your product often becomes a luxury item requiring a high price and high dealer margins. If, on the other hand, you go after intensive market coverage, you characterize your product as mass merchandise, which, in turn, most often necessitates a low-price policy.

Choice of advertising approaches, themes, messages, and media will vary with your product's distribution channels. Also, product and packaging design must reflect the characteristics of your chosen channels.

For instance, merchandise suited for self-service outlets has to be presented differently from goods requiring the advice and explanation of knowledgeable sales personnel. Obviously, then, channel decisions cannot be made in a vacuum, since they have repercussions on every other marketing decision you make and thus affect your entire marketing effort.

This discussion on channel coverage comes alive when viewed through the following case in which one company chose a distribution channel as its competitive weapon and how the decision influenced its long-term commitments, market reach, and internal operations.




### Dell Computer Corp.

This high-flying marketer continues to rack up record revenues and profits by utilizing distribution as the driving force behind its strategy. Dell defines its distribution channel as the use of direct response marketing to penetrate the huge PC industry.

The Dell case is instructive, largely because of the dismal but erroneous predictions of industry analysts. The 'experts' initially predicted that once competitors discovered buyers turning in droves to the toll-free telephone numbers and the Internet to order hardware, they would pounce on Dell and push it out of the selling channel. Those giants also thought their vast resources and powerful brand names would entice customers away from Dell. That wishful thinking never happened.

Let's look at the major factors contributing to Dell's success:

- **Target customers**: Dell's typical customer profile revealed its buyers as knowledgeable about computers, up-to-date on new



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systems, and specific about the products they wanted. These customers did not need or want the hand-holding assistance provided at retail outlets.

- **Internal operations**: To accommodate to its customer profile, Dell developed flexible manufacturing techniques. These techniques enabled the company to build a customer's computer virtually to order. Using different components for each order phoned in, Dell could custom-configure computers as received. With its well-honed systems in place, Dell moved heavily into the corporate segments.
- **Cost control**: Costs are kept in line because Dell carries less inventory – 35 days worth compared with an average 110 days for leading competitors. Such flexibility allowed Dell to use its direct response expertise to introduce new (and more expensive) models faster than it could through the longer manufacturer-to-distributor-to-retailer channel.
- **Channel innovation**: Dell marketers recognize that getting comfortable with their current direct channel approach could limit expansion, especially in global markets that lack the sophisticated communications and delivery systems of North America. Still exhibiting entrepreneurial flair, managers continue to investigate new distribution concepts such as interactive kiosks and expanding Dell's presence over the Internet.

## Action strategies

What can you learn from the Dell case? Dell's success illustrates channel power. Defined as the ability to set channel standards and control performance, channel power can even influence other organizations' channel decisions. For Dell, applying the power had the marketing effect of preventing the industry giants from taking control of the direct channel.

Let's examine a specific component of Dell's channel power to show its application through inventory management and control. Dell's supply management system allows it to maintain just enough inventory to satisfy customer order requirements – fast.

In turn, 'fast' translates into the now familiar just-in-time (JIT) delivery that evolved into a marketing strategy beginning in the 1980s. Demonstrated by Dell, JIT became the differentiating ingredient of its direct marketing effort and resulted in a selling advantage market leaders could not initially match.



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The Dell case illustrates a number of advantages for you to consider by paying closer attention to inventory management and control as part of your distribution strategy. For example:

1. Dell built a product strategy around efficient inventory management. The capacity to store only the most widely used computer components resulted in cost control and gave marketing and sales the flexibility to use price as a tactic to undercut competition on its terms. Doing so also allowed greater control over profitability at the tactical sales level.

2. Taking advantage of Dell's flexible manufacturing systems by customizing products to customers' specifications provided marketing and sales with a leading edge in preserving a high level of customer satisfaction.

3. Using direct response marketing as its primary distribution channel permitted Dell to beat competitors to the market with technology innovations that solve technical problems, before those competitors could react. For instance, at one point in the initial introduction of Intel's Pentium chip, Dell rapidly reacted to a recall problem with replacement chips, thereby demonstrating the advantage of swift movement and management control.

4. Maintaining control of the direct response channel set up a blocking action that discouraged the industry giants from attempting to reduce Dell's channel power.

## Distribution and market exposure

Adequate market coverage is interconnected to the product being promoted. Depending on the degree of market exposure desired, you can choose from exclusive, intensive, and selective distribution strategies (see Table 10.1.).



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| DISTRIBUTION CONSIDERATION: | 1. EXCLUSIVE | 2. SELECTIVE | 3. INTENSIVE |
|---|---|---|---|
| Degree of coverage | Limited | Medium | Saturation |
| Degree of control | Stringent | Substantial | Virtually nil |
| Cost of distribution | Low | Medium | High |
| Dealer support | Substantial | Limited | Very limited |
| Dealer training | Extensive | Restricted | None |
| Type of goods | Specialty | Shopping | Convenience |
| Product durability | Durable | Semidurable | Nondurable |
| Product advertising | Yes | Yes | No |
| Couponing | No | No | Yes |
| | | | |
| **Product example** | **Automobile** | **Suit** | **Chewing gum** |

Table 10.1: Considerations in choosing your degree of market exposure

## Exclusive

If you sell a prestige product, you are likely to grant exclusive rights covering a geographic area to a specific wholesaler or retailer, protecting this firm against territorial encroachments by other companies carrying your products. This policy severely limits the number of middlemen handling your products and should be adopted only if you want to exercise substantial control over your intermediaries' prices, promotion, presentation, and service. It results in a stronger commitment on the part of your dealers and, thus, in a more aggressive selling effort.

Frequently practised in the automobile business, exclusive distribution, however, may lead to a number of legal problems. For instance, an exclusive dealer contract, signed between your firm and a specific retailer, prevents the middleman from selling competitors' products.



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### Intensive

Intensive distribution is the direct opposite of exclusivity. Popular among producers of convenience items, this policy aims to make these goods available in as many outlets as possible. As the category name suggests, buyers of such products expect them to be conveniently accessible and will not expend much shopping effort. Products in this category are frequently purchased, low-ticket non-durables, such as cigarettes and chewing gum.

### Selective

Between the extremes of exclusive and intensive distribution falls selective distribution. This policy involves setting up selection criteria and deliberately restricting the number of retailers that will be permitted to handle your brand. More than one, but less than all applicants in an area will be selected. This approach implies quality without the restrictions of exclusivity.

Selective distribution is far less costly than intensive distribution and affords greater control. In particular, it is suitable for such retail goods as name-brand clothes, which fall into the semi-durables category (in contrast to the expensive durable specialty goods that are best handled through exclusive distribution).

Selective distribution lends itself to cooperative advertising, in which manufacturer and retailer share the cost.

## Direct versus indirect distribution

A very basic distribution decision that you have to make relatively early in your planning is whether you want to handle the distribution of your product alone or you want to enlist expert help. The former method is called direct distribution and the latter, indirect distribution.

### Direct distribution

As the name suggests, and as described in the Dell case, direct distribution involves a direct transfer of ownership from the producer to the consumer. As Figure 10.1 shows, this method does not preclude various types of facilitators from entering into the picture.



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As long as they do not assume title separate and distinct from the manufacturer, the channel still remains direct. Thus, producers can sell through the mail, over the phone, door to door, via the Internet, through a factory outlet, through their own retail stores, or even through an independent agent, and still be involved in a direct transaction. Direct distribution obviously involves a greater degree of control than indirect distribution, but it cuts a producer off from the widespread coverage that the latter approach can offer.

### Indirect distribution

On the other hand, indirect distribution always incorporates middlemen or resellers, who are basically of two types: wholesalers and retailers. Figure 10.1 presents a graphic comparison of the direct and indirect approaches.

What you see in Figure 10.1 is typical of the most frequently encountered channel designs. It is evident that in the direct distribution channel there is never a third party who takes title to the goods in question. For indirect distribution, the opposite situation is clearly the case, even though the manufacturer is likely to have a salesforce call on intermediaries.

The illustration does not propose to exhaust the variety of channel structures. Instead, it abstracts the most frequently used designs. As can be readily seen, multiple channels are entirely possible and are often adopted to increase exposure and impact in the marketplace.

However, selecting more than one route to the consumer can lead to competing and, at times, conflicting channels. Where it results in conflict, this distribution strategy can defeat its own purpose.



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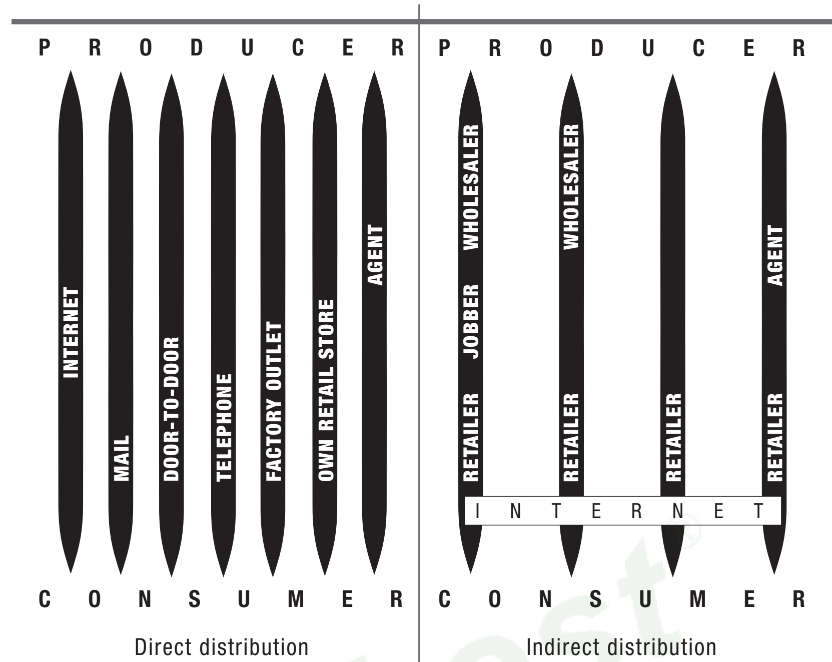
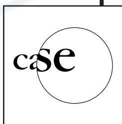



Figure 10.1: Direct and indirect distribution approaches to alternative channel designs

The following case illustrates the workings of distribution through multiple channels with a product line that sells into both the consumer and commercial markets.




### Kelly-Moore Paint Co.

A regional manufacturer of paint, Kelly-Moore Paint Co. has shown remarkable performance by producing 10% on its sales over a 10-year period, as compared with the giants Sherwin-Williams and du Pont, each of which averaged only 2.5% net on sales for the same period.

What made Kelly-Moore's success remarkable was that its primary focus was on contractors, a customer group in the supply chain that buys less than one-third of the paint sold in its marketplace.

The essence of Kelly-Moore's strategies can be summarized as follows:

1. It provided maximum service to contractors who generally worked out of their homes. For example, Kelly-Moore's paint stores served as free warehouse space for the contractors who could not buy paint in any volume.



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2. It maintained ongoing market intelligence. Because the stores doubled as contractor warehouses, Kelly-Moore knew exactly what customers' usage and colour patterns were at any given time. Such feedback made for tighter corporate planning and helped in anticipating the changing needs and wants of the marketplace.

3. Kelly-Moore moved further down the distribution chain into the consumer end of the business by building on its contractor base. For example, when contractors left touch-up cans behind them after completing a job, Kelly-Moore used those samples to sell to consumers directly. The approach was complementary, not conflicting, since the direct-to-consumer sales were generally for the do-it-yourself segment of the market.

### Action strategy

What can you learn from the Kelly-Moore case? In contrast to the Dell situation, there are a number of compelling reasons for using middlemen. The majority of manufacturers lack the financial wherewithal to perform effectively at both levels: production and distribution. They have to rely on middlemen to provide the financing for an aggressive, widespread selling effort.

Yet, even companies with adequate financial means might find investment in vertically integrated channels unattractive because of a relatively low return on investment. Thus, they might pursue higher yielding opportunities at the production end, leaving the distribution function to specialists.

Finally, producers going into the distribution business themselves often find that they must carry complementary products of other manufacturers to help defray the high cost of distribution and get maximum yield from their effort.



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## Making the channel decision

When the time comes to make the channel decision for your product, you should consider several factors. At first, an important consideration is: Where does the customer expect to find your product or service?

Therefore, the industry's prevailing distribution pattern is a powerful guide in making such a channel decision. If your current salesforce has related experience and appropriate business contacts, you may want to follow established routes.

Guidelines you should use when making a supply chain decision include the following:

- Companies that are strong financially have the option of direct distribution (such as Dell), while weaker firms most often need middlemen.
- If your product line is broad, you are in a better position than a specialized supplier to consider going direct. And, in keeping with marketing's credo of staying close to the customer, the fewer intermediaries you will want to have.
- You are better off going direct when you have a limited number of prospects. If they are concentrated in only a few areas, you can send out your own salesforce to make the sale.
- Should customers buy often and in small quantities, you had better let others handle the selling. Or, as an increasing number of firms do, encourage customers to use the Internet.
- Channel members are a vital link in your effort to satisfy distant customers. Therefore, by making them your partners and serving their best interests, you will find that they will help you achieve your goals.

### The Internet

As discussed in other chapters of this desktop guide, there is still another factor that is making a significant impact on channel-related decisions: the Internet.

Buying electronically isn't new to many companies that have been using an older technology called Electronic Data Interchange, or EDI. But that technology is rather costly and difficult to set up.

The Internet, on the other hand, lets you not only consummate a sale, but permits quick and inexpensive transfer of all kinds of data: sales contacts, product literature, and even engineering drawings.



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As a channel of distribution, doing business via the Internet shows cost savings in the range of 5% to 10% of sales – an average based on the experiences of a wide variety of companies. In more dramatic numbers, some companies reported huge advantages from on-line business relationships. For example:

- Chipmaker National Semiconductor Corp. reported saving its distributors $24 million in one year.
- Aircraft maker Boeing Co. booked $122 million in spare parts orders from airlines in one year through its websites.
- Networking giant Cisco Systems reported during the course of one year receiving $14 million in orders per day from resellers on its website.

## Channel control

Channel control considers four sets of circumstances that dictate the search for new distributors:

1. New marketing plan that calls for introducing a new product line and/or entering a new market.
2. Need to intensify market coverage.
3. Need to replace existing distributors due to poor performance.
4. Industry changes or technology advances in the methods of distribution.

The distributor can be one of the key success factors in a strategy. After you've developed a channel control strategy that involves distributors, you need to know how to select and evaluate them.

## Selecting distributors

Given the high degree of specialization found among distributors, your firm's management must decide how selective or comprehensive it wants to be in its market coverage. Only with the appropriate distribution mix can you satisfactorily achieve your company's marketing goals.

Your distributors will perform as you expect only if you carefully manage and constantly update your relationship with them. Therefore, develop and consistently apply well-thought-out criteria for selecting the right distribution partner in a given area.



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Use the following guidelines when considering new distributors:

- As you introduce new products, you may find that your current distributors are ill equipped to sell and service them, or they handle competitive products from other manufacturers. Or, you may be addressing a new kind of clientele not serviced by your current network of distributors.
- If you enter into new geographic markets, the need for appropriate representation may become self-evident. To help determine how many and what kinds of distributors you need for a particular territory, and to facilitate the selection process, you will want to conduct a market analysis to estimate its sales potential. Rarely do you have to choose a completely new set of distributors. Your own firm's present distributors can adequately handle most new product innovations.
- As you review your share of the business in a given segment, you may conclude that your firm is under-represented. Or you may determine that your present outlets are not going after the business aggressively enough to satisfy you. As a result, you need to add more distributors in the territory, based on population, sales, buying potential, or other relevant considerations.
- An area may be growing so quickly that your current distributor is simply no longer in a position to service the market adequately. In any event, the addition of new distributors in existing territories needs considerable thought and diplomacy. Be aware, however, your motive for maximizing territory coverage can prove counterproductive if it demoralizes your current distributors.
- Changes due to natural attrition, the death or retirement of principals, or the sale or collapse of a distributor are by far the most frequent reason for appointing new distributors.

Yet, more often than ever, erosion in your distributor mix comes about by inadequate distributor performance that leaves the manufacturer, or even both sides, dissatisfied. However, such a move can prove painful and disruptive and should be undertaken only in extreme cases. In some instances, you may try to rekindle an existing relationship, as long as there is a willingness to recognize the dynamic changes of the marketplace, and consequently the changes required in strategy.



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### Examining your distribution structure

Rarely should you have to revamp your entire distribution structure. In such a restructuring, you may add or eliminate an intermediary step in distributing your company's products, requiring the selection of new distributors.

If, on the other hand, you decide to make a change from direct to indirect distribution, you will have to build a national distributor network from scratch – a formidable challenge, requiring years of analysis, search, and organization.

Once you establish a need for new or additional distributor representation, your next task is to develop a list of candidates. You usually have a number of sources for this list, including your own field salesforce, your manager of distributor sales, trade associations, and present distributors and dealers.

The intelligent selection of distributive outlets for your firm requires more than the good judgment of a few key people. Since so much is at stake, the selection process should be directed by a set of carefully chosen guidelines consistently applied. These selection criteria have to be customized to suit the particular conditions and goals of your firm.

Table 10.2 highlights the selection criteria most often mentioned by some 200 leading manufacturers in a study on this subject. Look at how the numerous considerations are classified and summarized into a limited number of categories that can apply to any distributor selection task.

It is a monumental task to both formulate and apply a set of selection criteria suited to your particular circumstances. But it is well worth the effort, since it should lead to a satisfying, long-lasting relationship.

Selecting a distributor is by no means a one-way street. Rather, it is a matter of both sides choosing to work with each other. Thus, once you have made a selection, you have to persuade the prospect to join your team.

It may well be that your prospective distribution partner is scrutinizing your firm just as carefully. You should welcome that and be willing to supply information as freely as you expect to receive it. A well-analyzed commitment is bound to last longer than a hasty decision.



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| Criteria | Reasoning |
|---|---|
| Financial aspects | Only a distributor of solid financial strength and practices can assure you of adequate, continuous representation |
| Sales organization and performance | The sales strength and record of a prospect is essential to your potential relationship |
| Number of salespeople (in the field and on the inside) | The general rule: the more salespeople, the more sales and the more effective the market coverage |
| Sales and technical competence<br>Sales performance | Salespeople with inadequate technical and sales skills are a liability<br>A track record speaks for itself |
| Product lines carried<br>Competitive products<br>Compatible products<br>Quality level<br>Number of lines | Select your partners carefully<br>Generally disdained, sometimes okay<br>Tend to be beneficial<br>The higher, the better<br>Will your line get enough attention |
| Reputation | You are judged by the company you keep |
| Market coverage<br>Geographic coverage<br>Industry coverage<br>Intensity of coverage | Exposure means sales<br>Avoid overlap and conflicts<br>Major user groups must be covered<br>Infrequent calls mean lost business |
| Inventory and warehousing<br>Kind and size of inventory<br>Warehousing facilities | Ability to deliver is often crucial<br>You want the right mix and a willingness to maintain adequate stock<br>Storage and handling must be appropriate |
| Management<br>Ability<br>Continuity<br>Attitudes | Proper leadership spells success<br>You want competent leadership<br>Succession should be assured<br>Look for enthusiasm and aggressiveness |

Table 10.2: Criteria for selecting distributors



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## Evaluating distributors

Once you have secured the services of a distributor candidate, you must then ensure that your association brings maximum benefit to both parties.

You need to perform periodic evaluations designed to keep you continually informed about the relative performance of your various distributors.

These evaluations may be in the nature of current operating appraisals or may take on the form of overall performance reviews. If they are simple and limited in scope, you could conduct them monthly. Thorough analyses, however, should be undertaken only at infrequent intervals: annually, biannually, or even triannually.

Use the following guidelines:

- If you engage in selective rather than exclusive distribution, the amount of evaluative input that you can readily obtain from your distributors is quite limited, forcing you to rely mostly on your own records, observations, and intelligence.
- If your product is a high-volume, low-cost item with little need for after-sale servicing, you can restrict yourself to a more limited evaluation than in the case of complex systems installations.
- If your team is composed of many hundreds of multi-line distributors, you will tend to take a closer look at a particular reseller only if its sales trends are way out of line. This procedure is called 'evaluation by exception'.
- If your firm employs only a moderate number of outlets, your analysis can be more thorough.

Whatever you conclude from your evaluation, it will rarely result in the termination of a particular distributor's services. Elimination is truly the last step, after all attempts to re-establish a satisfactory relationship have failed. The expense, time, and trouble involved in dropping a distributor and appointing an established outlet or even appointing an additional distributor are considerably less appealing alternatives.

The following case summarizes the new waves of distribution by illustrating how one company integrates distribution into a competitive strategy.



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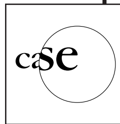


## Owens & Minor

A distributor of hospital supplies, Owens & Minor, typifies the emerging role of the middleman in the distribution channel. Combining technology and customer service as the centrepieces of its strategy, O&M has taken control of its channel.

Such a role traditionally belonged to manufacturers and they reinforced that viewpoint with, 'We can price it lower because we've eliminated the middleman.'

This has changed. Increasing numbers of distributors in a variety of industries are responding to customers' calls for help, having been pounded by intense competition and high operating costs that have put them in a cash bind.

How are distributors shaping their strategies? Let's break down Owens & Minor's activities into four categories:

1. **Inventory**. Owens & Minor's employees take a daily inventory at their customer hospitals using hand-held electronic devices linked to the hospitals' computers.

   The computers then transmit orders directly to its regional distribution centres where daily deliveries are scheduled. In one hospital, where this managed inventory system was installed, inventory that included everything from catheters to rubbish bags, once valued at $306,000 was reduced to around $60,600. With cash-strapped hospitals seeking relief, the managed-inventory system satisfies the customer, strengthens the distributor-buyer relationship, and gives O&M's strategy a commanding edge.

2. **Management efficiency**. With inventory control and just-in-time delivery, hospitals benefit further by less paperwork, fewer employees, less stockroom maintenance, and reduced spoilage from such products as baby formula. One customer estimated it saved $9 million in three years using the system.

3. **Consultation**. Besides reducing inventories, O&M advises its customers on ways to reduce waste. In one instance, its personnel observed that a hospital was spending $736 on products for each open-heart operation, compared with $516 spent by other customers for the same procedure. Altering the contents of one sterilized package saved that hospital the difference.



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4. **Growth**. With an efficient distribution system in place, O&M managers capitalize on their dominance by adding products to their line. This generates more profitable sales volume with only incremental costs, while satisfying customers with one-stop-shopping.

## Action strategy

What can you learn from the Owens & Minor case, whether you are a distributor or manufacturer?

**If you are a distributor:**

Take control of the distribution channel by becoming more than just a conduit for supplying products from manufacturer to customer. Utilize technology to manage customers' inventories, improve delivery times, solve customers' problems related to waste, and reduce costs in order processing and shipping.

**If you are a manufacturer:**

Recognize that if you decide to bypass the middleman, you will have to deliver the above services. With distributors taking the initiative, it may be a prudent alternative to select a distributor and provide maximum support, even to the extent of supplying capital to purchase or update the distributor's technology. Such an alliance accepts the middlemen not as a weak link in a distribution chain, but as a powerful coupling to activate a marketing strategy.

Regardless of your position in the distribution chain, there are key functions you have to deal with in shaping a distribution strategy:

- **Information**: Collect, analyze, and disseminate market intelligence about potential and current customers, competitors, and other forces affecting the market.
- **Communication**: Combine various forms of communication including literature, videos, and workshops to attract and retain customers.
- **Negotiation**: Seek agreement on price, terms of delivery, and other value-added services as they relate to a preferred-customer status and long-term relationship.
- **Ordering**: Set-up procedures for the efficient electronic transmission of ordering information, e.g. using the Internet.
- **Financing**: Develop the means to fund a managed inventory system, similar to Owens & Minor.



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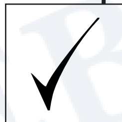
- **Risk taking**: Assume the responsibility for risks associated with the expanded middleman activities.
- **Physical possession**: Develop the capability to store additional varieties of products for customers and manage increases in inventory turnover.
- **Payment**: Design an effective system for payment – including the selective financing of inventories for the buyer.
- **Title**: Develop a system to pinpoint the transfer of ownership from seller to buyer. In some situations, inventory is held at the buyer's location and title changes only when usage occurs.

With the backward and forward flow of activities throughout the supply chain, different participants in the channel assume distinct functions. Therefore, whether manufacturer or distributor, when forming a relationship clearly define the role of each channel member.

## Best practices



Before converting your distribution strategies into action, remember that excessive distance and time between your product and its availability to customers adds a burden to an operation. Shorten the length of the distribution channel and reduce the communication time between the customer and the home office to assure profitable market conditions.

To identify strategies and initiate action:

1. List the distribution strategies that will represent the best opportunities.
2. Indicate what actions are to take place and which personnel would be assigned the tasks.
3. Obtain feedback and relate it to the objectives desired and the strategies selected.
4. List immediate plans and future courses of action.



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