Undergraduate Diploma in Digital Marketing

Module 02 Digital Marketing Basics MQF Level 5, 8 ECTS

Lecture Title: Distribution Strategy

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Undergraduate Diploma in Digital Marketing

What is a Distribution Strategy in Marketing?

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A Distribution Strategy in marketing refers to the methods and processes a business employs to make its products or services available to the target consumers.

It's a crucial element of the marketing mix (commonly known as the 4 Ps: **Product, Price, Promotion, and Place**, focusing on the **'Place'** aspect.

The goal is to ensure that the product reaches the customer efficiently, conveniently, and in a way that complements the **overall brand strategy**.

1. Distribution Channels:

These are the pathways through which a product or service travels from the producer to the consumer.

Channels can be direct (e.g., selling directly to consumers through a company website) or indirect (e.g., using wholesalers or retailers).

2. Market Coverage:

This involves decisions about the breadth of distribution. A company can opt for:

- Intensive distribution (available at as many outlets as possible),
- Selective distribution (available at select outlets), or
- Exclusive distribution (available at very few outlets, often to maintain a sense of exclusivity).

3. Physical Distribution and Logistics:

This includes the warehousing, inventory management, order processing, and transportation of goods from the producer to the consumer.

Efficient logistics are crucial for ensuring product availability and customer satisfaction.

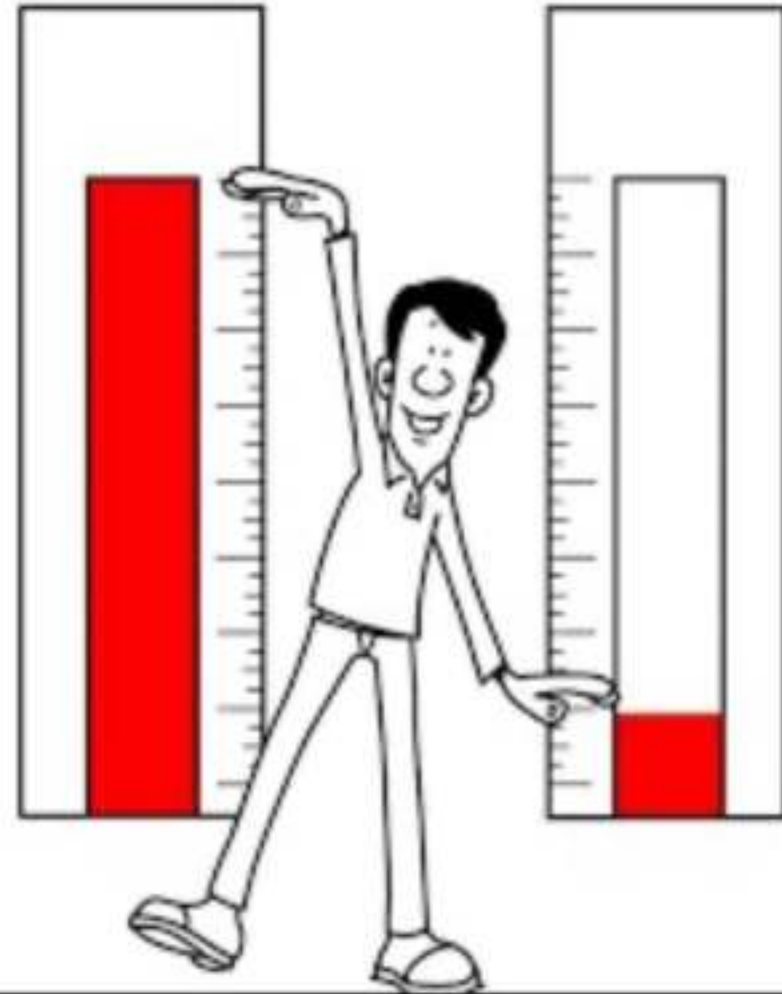
4. Channel Partners:

These intermediaries, like wholesalers, distributors, and retailers, help move the product from the manufacturer to the consumer.

The relationship management with these partners is vital for a smooth distribution process.

Distribution Channel Marketing Strategy

CASE STUDY



Types of Distribution Strategies:

1. Direct Distribution:

The manufacturer sells the product directly to the consumer without intermediaries.

Online stores, company-owned stores, and direct mail are examples of direct distribution.

2. Indirect Distribution:

The manufacturer relies on intermediaries to reach the consumer. This can involve multiple levels, like distributors selling to retailers, who then sell to consumers.

3. Dual or Multi-Channel Distribution:

The manufacturer uses more than one type of distribution channel to reach the consumer. For example, they might sell directly online while also distributing products through retailers.

4. Digital Distribution:

Especially relevant in the digital age, this involves the distribution of digital products or services through digital channels, such as downloading software from a website or streaming content online.

Key Considerations:

- Customer Preferences:

Understanding how, where, and when customers prefer to purchase products is crucial for selecting the right distribution channels.

- Costs and Efficiency:

Different distribution strategies have different cost structures and efficiencies. Companies need to balance customer service and satisfaction with the cost of distribution.

- Competitive Landscape:

The distribution strategies of competitors can influence a company's choice of distribution. Companies may need to adapt their strategy to stay competitive.

- Product Type and Market:

The nature of the product (e.g., perishable, high value, bulky) and the characteristics of the target market (e.g., geography, demographics) significantly influence the distribution strategy.

A well-planned and executed distribution strategy ensures that a company's products are available to the target customers in the most efficient, timely, and cost-effective manner, thereby supporting the overall marketing and business objectives.

3 Prices Strategies

In 5 Minutes

What is the Effect of Pricing on a Distribution Strategy?

Pricing is a crucial element of the marketing mix and significantly impacts distribution strategy in various ways.

1. Channel Decisions:

The price of a product influences the type of distribution channels a company can use. For instance, high-priced luxury goods are often sold through exclusive channels, while more affordable products might use mass-market retailers.

2. Margin Requirements:

Different intermediaries in the distribution channel require different margins. Higher-priced products offer enough margin to include additional intermediaries, while lower-priced goods might need a direct-to-consumer approach to maintain profitability.

3. Market Coverage:

The price level can determine whether a product is distributed:

- Intensively (widely available, typically for lower-priced goods),
- Selectively (limited outlets, often for higher-priced items), or
- Exclusively (single retailer, usually for luxury or highly-priced products).

4. Competitive Response:

Pricing impacts how competitors react and distribute their products.

A company might need to adjust its distribution strategy based on the competitive pricing landscape.

5. Customer Expectations:

The price sets customer expectations and dictates where they expect to find the product.

Higher-priced items are often found in speciality stores, while lower-priced items are expected to be easily accessible.

6. Promotional Strategies:

Higher or lower pricing will also affect the promotional strategies that can be used in conjunction with distribution. For example, high-priced products may require more personal selling, while low-priced items can rely on advertising.

7. Transportation and Logistics:

The price can influence the cost structure, affecting transportation choices. Expensive goods need more secure, faster shipping options, whereas lower-cost items can be shipped more economically.

8. Product Positioning:

Price influences product positioning within the market. The distribution strategy must align with this positioning; premium products are distributed in a way that reinforces their premium status.

9. Retailer Relationships:

The suggested retail price affects the relationships with retailers. Products with better margins are often more attractive to retailers and can influence shelf space and retailer support.

10. Market Penetration:

If the strategy is to penetrate the market quickly, pricing will be lower, and products will be distributed widely.

Conversely, a skimming strategy* with higher prices will involve more selective distribution.

*Skimming Strategy:

A pricing approach in which the producer sets a high introductory price to attract buyers with a strong desire for the product and the resources to buy it , gradually reducing the price to attract the next and subsequent layers of the market.

Class Exercise: 90 MIN

Work together to establish the price of this mobile fan by taking into account these considerations:

1. The manufactured product costs €1 for an order of 1000.
2. Describe the product, features, and unique selling proposition (USP).
3. Identify the target market for the product.
4. Analyse the competition: List at least three competitors and their pricing strategies.

Class Exercise: 90 MIN

5. Calculate the total cost of bringing the product to market, including production, marketing, distribution, and possibly other overhead costs.
6. Define the pricing objectives (e.g., market penetration, skimming, competition-based, value-based, etc.).
7. Choose a pricing method (e.g., cost-plus pricing, value-based pricing, competition-based pricing) and justify the choice based on the product and market analysis.

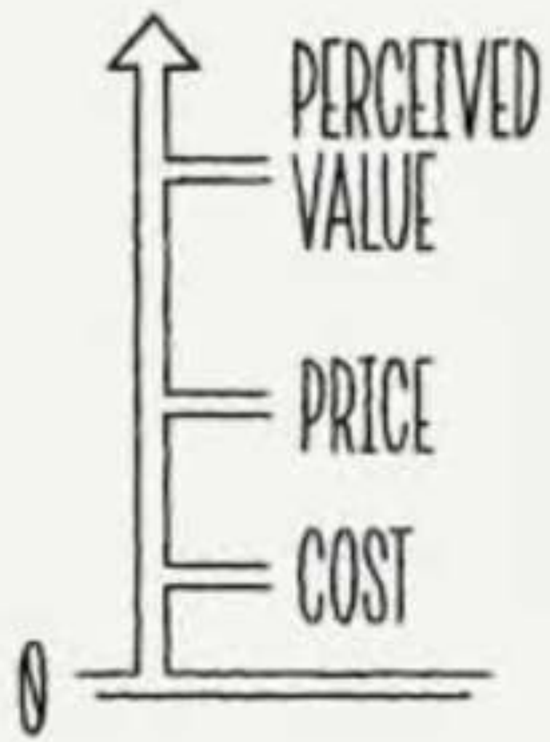
Class Exercise: 90 MIN

8. Decide if any distribution strategies will affect the pricing (e.g., different pricing for online vs. brick-and-mortar, discounts for certain retailers, etc.).
9. Consider how the chosen distribution channels (e.g., direct sales, wholesalers, retailers) influence the final price to the consumer.
10. Consider the effect of your digital marketing costs on the product's final price.

Value-Based Pricing

Value-based pricing is a pricing strategy that sets prices primarily based on the perceived or estimated value of a product or service to the customer rather than on the cost of the product, historical prices, or competitors' prices.

This approach recognises that the value a product or service provides to a customer is the most important factor in pricing decisions.


PERCEIVED
VALUE
PRICE
COST
0

Product Parity + Your Value

→ Insight
→ Perspective
→ Navigate BAT!
→ Avoid Minefield!
→ Help them sell it!
→ Justify → ROI! TCO!

Value

1. Customer Perception is Key:

In value-based pricing, the focus is on understanding how much value customers place on a product or service.

This perceived value can vary significantly among different customer segments.

2. Research and Understanding:

Companies must invest in market research to understand their customers' needs and how they perceive the product or service's value.

This can involve qualitative methods like customer interviews or focus groups and quantitative methods like surveys.

3. Segmentation and Personalization:

Value-based pricing often leads to price differentiation, where a company may charge different prices to different market segments based on their perceived value.

For example, a software company might offer premium features at a higher price to enterprise clients who value those features more than individual users.

4. Focus on Benefits and Value Proposition:

Companies using value-based pricing strategies tend to emphasise the benefits and value their products or services provide in their marketing and sales efforts.

The idea is to highlight how the product or service addresses specific needs or solves problems for the customer.

5. Higher Profit Margins:

If executed correctly, value-based pricing can lead to higher profit margins. This is because prices are aligned with the perceived value, which can often be higher than the cost of production, especially for products or services that have a strong brand, unique features, or provide significant benefits to the customer.

6. Dynamic and Flexible:

Value-based pricing is not static; it requires ongoing monitoring and adaptation. Companies need to continuously gather customer feedback and market data to ensure that their pricing reflects current customer perceptions and market conditions.

7. Challenges and Considerations:

While value-based pricing has significant advantages, it also comes with challenges. It requires a deep understanding of customers' needs and perceptions, effective communication of value, and sometimes sophisticated price differentiation strategies. Companies must also be wary of setting prices that customers perceive as unfair or exploitative, which can lead to negative publicity or loss of customer trust.

In essence, value-based pricing centres on the idea that the primary driver of pricing should be the customers' perceived value of the product or service rather than just the cost to produce it or what competitors are charging. It requires a customer-centric approach and a deep understanding of the market and the value proposition of the product or service.

Competition Based Pricing

Competition-based pricing is a strategy where a business determines the prices of its products or services based on the prices of its competitors rather than solely on its own costs or consumer demand.

This approach is common in markets with high competition and similar products or services.

1. Market Analysis:

- Competitor Analysis:

Businesses thoroughly analyse their competitors’ pricing strategies, product offerings, and market positioning.

This involves understanding competitors' cost structures, target customers, and perceived value of the products.

- Market Positioning:

Companies determine their position relative to their competitors. Based on the competitive landscape, they decide whether to position their product as a premium or a budget option.

2. Pricing Strategies:

- Price Matching:

Setting prices equivalent to competitors' prices to emphasise value and service as differentiators rather than price.

- Price Lowering (Penetration Pricing):

Setting prices lower than competitors to attract customers and gain market share. This strategy is often used when entering a new market or launching a new product.

- Price Raising:

Setting prices higher than competitors usually positions a product as premium or taps into a less price-sensitive customer segment.

3. Considerations and Risks:

- Cost Consideration:

While matching or beating competitors' prices, it's crucial to ensure that the price covers the cost of production and delivers a profit margin.

- Perception of Quality:

Pricing affects brand image and perceived value. Lower prices lead to an assumption of lower quality, whereas higher prices may set higher expectations for quality and service.

- Reactive Market:

Competitor-based pricing is inherently reactive. If competitors frequently change prices, it can lead to a price war, eroding profits for all players in the market.

4. Monitoring and Adjustment:

- Companies need to continuously monitor competitors’ pricing and market strategies to stay competitive. This may require frequent adjustments to pricing and marketing strategies.

- Utilizing technology and data analytics can aid in tracking competitors’ pricing strategies in real time and making informed decisions.

5. Legal and Ethical Considerations:

- Companies must ensure that their pricing strategies comply with antitrust and price-fixing regulations. Collusion with competitors to set prices is illegal in many jurisdictions.

6. Advantages:

- Quick Market Entry:

It's easier to enter a market by adopting a price point similar to competitors.

- Reduced Risk:

Decisions are based on existing market data, which can reduce the risk associated with pricing strategies.

7. Disadvantages:

- Lower Margins:

Competing on price often leads to reduced profit margins.

- Dependence on Competitors:

Businesses might become too focused on competitors, neglecting innovation or understanding customer needs.

tutor2u

BUSINESS TOPIC VIDEOS

Competitor Pricing

A Level / BTEC Business

Presented by Jim Riley

Market Expansion

Pricing strategies play a crucial role in market expansion as they directly influence demand, profit margins, competition, and brand positioning.

1. Market Penetration Pricing:

- Objective: To attract customers and gain market share rapidly.
- Approach: Set prices lower than competitors.
- Impact on Market Expansion: Effective for quickly entering a new market or selling a new product. It can help establish a customer base but might initially lead to lower profit margins.

2. Premium Pricing:

- Objective: To establish a high-quality or luxury brand image.
- Approach: Set prices higher than competitors.
- Impact on Market Expansion: Can attract a specific market segment willing to pay more for perceived quality or status. However, it might limit the customer base to only the premium segment.

3. Economy Pricing:

- Objective: To attract the most price-sensitive customers.
- Approach: Set low prices by minimising costs.
- Impact on Market Expansion: Effective for commoditised products. It can lead to large sales volumes but with thin profit margins. It's good for rapid expansion in large, cost-sensitive markets.

4. Price Skimming:

- Objective: To maximise profits from different market segments.
- Approach: Start with a high price and lower it gradually as the market saturates.
- Impact on Market Expansion: Useful for innovative or tech products. It can initially attract early adopters and then gradually capture price-sensitive segments as prices drop.

5. Psychological Pricing:

- Objective: To use customer psychology to encourage purchases.
- Approach: Set prices that are perceived to be lower, like $9.99 instead of $10.
- Impact on Market Expansion: This can effectively boost sales through the perception of a deal but doesn't necessarily contribute to a sustainable market expansion strategy unless combined with other methods.

6. Dynamic Pricing:

- Objective: To adjust prices in real-time based on demand, competition, and other factors.
- Approach: Use algorithms to set flexible pricing.
- Impact on Market Expansion: This can be effective in industries like hospitality or airlines where demand fluctuates. Helps in maximising profits but requires sophisticated technology and data analysis.

7. Bundle Pricing:

- Objective: To increase the perceived value and sell more products.
- Approach: Offer multiple products or services together at a lower price than if bought separately.
- Impact on Market Expansion: Can effectively increase the average order value and move inventory but might reduce the profit margin on individual items.

8. Geographical Pricing:

- Objective: To adjust prices based on location and local market conditions.
- Approach: Set different prices in different regions, countries, or localities.
- Impact on Market Expansion: Helps in catering to local market conditions, purchasing power, and competition but requires a deep understanding of each market.

Each of these strategies has its merits and risks, and the choice depends on the company's goals, the nature of the product or service, the target market, and the competitive landscape.

Often, a mix of these strategies is used in different market segments or phases of the product life cycle to optimise market expansion and profitability.

Digital Distribution Channels

Digital distribution channels have dramatically transformed the pricing of products and services.

1. Lower Operational Costs:

Digital distribution significantly reduces the costs associated with physical production, inventory management, and logistics.

These savings can be passed on to consumers through lower prices.

2. Price Discrimination and Dynamic Pricing:

Digital platforms can collect vast amounts of data on customer behaviour, preferences, and willingness to pay. This enables businesses to employ sophisticated price discrimination strategies, offering different prices to different customers or dynamically changing prices based on demand, time, or other factors.

3. Increased Competition:

The internet has lowered barriers to entry, allowing more businesses to compete in the market. This increased competition can lead to price wars and, ultimately, lower consumer prices. However, it can also lead to a race to the bottom, where businesses compete primarily on price, potentially sacrificing quality or service.

4. Greater Price Transparency:

Online channels allow customers to compare prices across different vendors easily.

This transparency can drive prices down as businesses are pressured to offer competitive pricing to attract customers.

5. Long Tail Economics:

Digital distribution allows for the profitable sale of niche products or services with low demand or sales volume.

This can lead to a broader range of price points and allow for premium pricing of niche, specialised products.

6. Subscription Models and Freemium Pricing:

Digital distribution has popularised subscription-based and freemium pricing models. Subscriptions can provide a steady revenue stream, allowing businesses to price more aggressively to obtain market share.

Freemium models offer a basic product or service for free while charging for premium features, attracting a large user base and converting a fraction to paying customers.

Freemium SaaS (Software as a service):

Software as a service (SaaS) allows users to connect to and use cloud-based apps over the Internet.

Common examples are email, calendaring, and office tools (such as Microsoft Office 365).

Only Use a Freemium Business Model When the Following 3 of 4 Things are True

CLASS EXERCISE: 60 MIN

You are the marketing team for a new photo editing app called **"SnapPro"**. The app currently has basic editing tools available for free. Your task is to create a freemium pricing strategy to increase user engagement and convert free users into paying customers.

Guidelines:

Define 3 features for the **free version**.

Define 3 exclusive features for the **premium version**.

Suggest 2 marketing tactics to encourage users to upgrade.

Propose a price point for the premium version and justify it.

7. Global Market Access:

Digital channels provide access to a global market, allowing businesses to scale rapidly and adjust prices according to local economic conditions, purchasing power parity, or currency exchange rates.

8. Psychological Pricing Strategies:

The ease of changing prices digitally allows businesses to experiment with psychological pricing strategies, like charm pricing (e.g., $9.99 instead of $10), to influence consumer behaviour subtly.

9. Market Segmentation:

Digital channels facilitate more refined market segmentation and personalised marketing, enabling businesses to tailor their pricing strategies to different segments effectively.

10. Regulatory Challenges and Taxes:

Digital distribution crosses international borders, leading to complex regulatory and tax considerations. Businesses need to navigate these carefully, as they can impact pricing structures and the overall cost for the end-user.

Key Performance Indicators to Measure Distribution Strategy

Key Performance Indicators (KPIs) are crucial for measuring the effectiveness of a distribution strategy. They help understand how well the distribution channels perform and where improvements are needed.

1. Order Fulfillment Time:

Measures the time taken from receiving an order to delivering it to the customer. Shorter fulfilment times generally indicate a more efficient distribution system.

2. Inventory Turnover:

Indicates how often inventory is sold and replaced over a period. High turnover can suggest strong sales or effective inventory management.

3. On-time Delivery Rate:

The percentage of orders delivered on the promised delivery date. It's a direct indicator of how reliable the distribution system is.

4. Distribution Costs as a Percentage of Sales:

Helps in understanding the efficiency of the distribution strategy by comparing the costs involved in distribution with the revenue generated from sales.

5. Return Rate:

The percentage of products returned by customers. High return rates can indicate issues with product quality or the ordering process.

6. Customer Satisfaction Score (CSAT) related to delivery:

Customer feedback regarding their satisfaction with the delivery aspect of the service.

7. Stockouts Frequency:

The number of times an item is unavailable when a customer wants to buy it. Frequent stockouts can indicate poor inventory management and can lead to lost sales.

8. Carrying Cost of Inventory:

The total cost of holding inventory, including storage, insurance, and obsolescence. Efficient distribution strategies should minimise these costs.

9. Perfect Order Rate:

The percentage of error-free orders in all aspects, including order accuracy, shipment accuracy, damage-free delivery, and timely delivery.

10. Market Share in Target Segments:

Measures how much of the targeted market segments are covered by the distribution channels.

11. Gross Margin Return on Investment (GMROI) for Inventory:

Evaluate the profit return on the money invested in inventory. It helps in assessing whether the inventory is contributing adequately to profits.

12. Throughput:

The amount of material or items passing through the distribution system over a given period. This helps in understanding the capacity utilisation of the distribution network.

UNDERSTANDING NIKE

THANK YOU FOR TODAY

Pierre Portelli for 21 Academy
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