How do products get to customers?
What Is Place?

After studying this chapter, you will be able to:

- list four decisions covered by the place P of the marketing mix.
- name the two main considerations for choosing a business site.
- describe the qualities of a good retail site.
- explain what a channel of distribution is.
- explain the difference between a wholesaler and a retailer.
- describe three main functions of intermediaries.
- explain why manufacturers use intermediaries.
- summarize the way channel management helps control the movement of products from producer to consumer.
- describe the transfer of ownership through a channel of distribution.

Marketing Terms

- site
- market coverage
- channel of distribution
- intermediaries
- wholesaler
- channel member
- nonstore retailer
- supply chain
- agent
- broker
- direct distribution
- indirect distribution
- facilitate
- bulk-breaking
- channel management
- title

Imagine standing in front of your school. Your school is in the business of educating young people. Education (a service) is the school’s product. You and the other students are the consumers. What place decisions were made for your school?

The first place decision was location. The school is not located in a wheat field. It is located in a community that has many school-age children. Another part of the place decision concerns hours that the school is open. The school is open during scheduled classes and before and after school for clubs, sports, and other projects.

Now think of the goods that are in your school, for example, books, desks, posters, and bulletin boards. Each of these goods was produced at a different location. Now these goods are all at school where and when you need them. These goods are here because of the place decisions made by marketers.

Place Decisions

Place decisions are critical to the success of a product. Place decisions include determining when, where, and how products get to customers. Distribution and retailing are often part of place decisions.

Place decisions involve determining when, where, and how products get to customers. An important part of the place decision is determining where products should be offered and how to get the products to those places. Place decisions also include making sure there are enough quantities of products available. Successful organizations make sure their products are in the right place at the right time and in the right quantities. Then their customers can buy or use them. Goods, services, and ideas require place decisions. Consumer products and business products require place decisions.

In order to make good place decisions, marketers need to know where and when customers use their products. Marketers study the buying habits of their customers to determine the most convenient and efficient locations to sell their products. They analyze
how they can make their products available at the best place and the best time. By doing this, marketers are providing both place utility and time utility. In other words, products are available at convenient places and at convenient times for customers. Marketers also make sure that enough products are available. If customers arrive at a store, but your product is out of stock, the customers cannot buy your product. Customers might then take their business to competitors.

Place decisions include answers to questions about the following issues: (1) location of the business, (2) hours of operation, (3) channels of distribution, and (4) transportation. Location, hours of operation, and channels of distribution will be discussed in this chapter. Transportation will be covered in Chapter 27. Retailing, which represents the most common place issues for consumer goods, will be discussed in Chapter 28. Chapter 29 will discuss the Internet as place.

Name a product that you use often. Where do you buy it? List the place decisions that you think were made for this product.

**Reality Check**

Location Decisions

When you need a pen, where do you go? When you want a burger, where do you go? If you are like most people, your first choice is probably the closest place that sells it. The location of a retail store or restaurant has a huge influence on the success of the business and the satisfaction of its customers. Consumer businesses should be located where customers are. For example, surfboard shops are located near beaches used by surfers, 26-3. Fast-food restaurants are located along highways and in large shopping malls, where large numbers of people pass by. Doctors often offer their services near hospitals, where the patients are. Political candidates, offering ideas, locate their campaign headquarters near voters.

Location is also important for companies that sell to businesses. For example, an office supply store will be located in the business district of a city. Office supply stores are not usually found in a farming area. A business that supplies auto parts should be close to an automobile factory. Site is another term for location. Site is important for all businesses. What do companies have to think about when they choose a site? There are two main considerations. First, they must be located in a place where they can easily get the inputs (materials and supplies) for the business. Second, they must be located where they can easily get the outputs (products) to customers.

**Retail Site Selection**

The site of a retail store is key to attracting enough customers to make a good profit. Retail stores must be near their target market customers. Shoppers must walk through their doors to buy their goods. Aspects of retail site selection include location, market coverage, and hours.

**Location**

Marketing research is done to determine where the largest numbers of potential customers are located. Marketers often look back at the data they collected when they were segmenting the market. They look for geographic areas that are growing. In other words, more people and more money should be coming into the area. Marketers also look at the competition. If the store will be selling shoes, are there already too many shoe stores in the area? If the answer is yes, the marketer may look for another site.

Some stores are large enough, have advertised enough, and are well known enough to draw customers on their own. Walmart stores are often at a site by themselves. Other stores do better grouped together in a mall. Malls benefit both retailers and customers. Shopping malls attract a large number of customers. The benefit of a mall is one-stop shopping for customers. The customers go to one location and can shop at several different types of stores, 26-4.
What makes a good site for a retail store? The site should be (1) easy to get to, (2) visible to passing traffic, and (3) safe. Major shopping malls are often located where two main roads intersect. Cars should be able to easily get into, park, and exit from the site. If the site is in a city, it should be close to public transportation. The site should also be safe from crime and other dangers.

Market Coverage

Another site decision is how many stores to have. Market coverage refers to the number of stores a retailer chooses to have in a specific geographic area. The three levels of retail market coverage are the following:

- **Intensive Market Coverage.** A retailer has as many stores as possible in one market area. For example, Starbucks has intensive market coverage in Seattle. Starbucks stores are often located fairly close to each other. Starbucks might be located in each major shopping mall, in all the smaller strip malls, and on many street corners.

- **Selective Market Coverage.** A retailer has just enough locations to adequately serve the target market. Selective market coverage usually means several stores in a market area. A selective retailer might locate one store in each major shopping mall. For example, Old Navy has a selective market approach.

- **Exclusive Market Coverage.** A retailer has only one store to serve the entire market area. Upscale specialty retailers use this approach. For example, there is only one Rolls Royce-Bentley automobile dealer in the Chicago area. These types of retailers can use the exclusive approach because their customers are willing to travel quite a distance for these special products.

**Reality Check**

Name your favorite retail store and the types of products it sells. Who is the target market for this store? Name a store in one of the other two coverage types. Explain your answer.

**Hours**

Another decision considered to be part of the place P is store hours. Which days of the week and which hours will the store be open? The answer depends on the type of retail business and demands of the market, as well as state and federal laws regarding operating hours. Some grocery stores stay open around the clock. Clothing stores often open at 10:00 a.m. and close mid-evening. Upscale dinner restaurants may be open from 5:00 p.m. until midnight, Tuesday through Sunday.

A mail-order retailer does not have a store. This business does not need to be close to customers because this type of retailer reaches customers in their own homes, through mail, by telephone, or by Internet.

**Reality Check**

Have you ever visited a store, just to find that it was closed? Name the store and its products. Which hours is it open? Which hours do you think it should be open? Why?

Mail-order retailers offer customers the convenience of ordering from home by mail, phone, or Internet.

Site Selection for Other Businesses

Manufacturers have different location needs from retail businesses. One of the manufacturer’s major costs is transporting raw materials and supplies (production inputs) to the factory. As a result, most manufacturers locate in places where the manufacturing input can easily reach them. They also need to have access to good transportation, so the finished products can quickly and easily be delivered to customers. Manufacturers also need to be located in areas where there are enough workers for the factory.

For example, cereal manufacturers such as Post and Kellogg are located in Michigan. One of the major inputs for cereal is grain. Michigan has many grain farms. Many workers are available in the cities of Michigan. Grain processing equipment suppliers are located there, too. After the manufacturers produce the cereal, their output is shipped to grocery stores throughout the world.

Manufacturing companies in the same industry are often located near each other. For instance, pewter and silver manufacturers are concentrated in Rhode Island. They located there long ago, to be near sources of precious metals (their input). Rhode Island is also close to East Coast transportation systems to send their output to stores. Many pewter and silver manufacturers are still located in Rhode Island.

Geographic concentrations of manufacturing industries are efficient. Suppliers for that industry locate nearby to provide specialized services, equipment, and parts to the manufacturers. Concentrated locations also make it easier to sell the goods. The purchasing agents for that industry can go to one area and see goods from many competing companies.

Service providers also concentrate in geographic locations. Many banks and stock brokerage firms have headquarters in New York City. New York was the financial business center for early America. It has remained as the financial business center because many of the supporting industries are located nearby.
Channels of Distribution

A major part of the place decision is selecting the channel of distribution. A channel of distribution is the route a good takes from its original source to its final customer. Think of an apple you ate recently, 26-6. What route did the apple take to get to you? The apple started out in an apple orchard owned by an apple farmer. The apple farmer sold the apples to an apple buyer. The apple buyer bought apples from all the farmers in the area. The apple buyer then sells apples to your local grocery store. You then go to the grocery store and buy the apple.

You could have bought the apple directly from the apple farmer. However, you live very far away from any apple farms. The apple buyer and the grocery store make the apple convenient to you. The apple orchard, apple buyer, and the grocery store are the channel of distribution for the apple.

Wholesalers and Retailers

The businesses between the original source (the apple farmer) and the customer (you) are called intermediaries. The apple buyer and the grocery store are intermediaries. (Intermediaries used to be called middlemen; they are the people or businesses in the middle between the source of the product and the customer.) Intermediaries are also called resellers because they resell products that they have purchased to another intermediary or to the final consumer.

The two most common types of intermediaries are wholesalers and retailers. A wholesaler is a business that buys products from a producer, and then sells them to another business. Wholesalers are B2B businesses. Wholesalers are also called distributors. As you learned in Chapter 25, a retailer is a business that buys products from a producer or a wholesaler, and then sells the product to the final customer in the consumer market. Retailers are B2C businesses. Retailers include department stores, supermarkets, convenience stores, restaurants, movie theaters, car dealers, and many other types of stores. Figure 26-7 shows the most common channel of distribution for consumer goods.

A channel member is a specific business that is part of the channel of distribution for a specific product. In the apple example, Roberto’s Apple Orchard, Tamar’s Apple Distributors, Inc., and Jane’s Convenience Store are the channel members for the apples. Roberto could have chosen different channel members for the apples. Jordan might pick up the apples more often and might sell them to more grocery stores than Tamar does.

Retailers also include nonstore retailers. A nonstore retailer is a business that sells directly to consumers through ways other than a retail store. Nonstore retailers include mail order catalogers, TV shopping channels, and Web sites. They also include retailers who sell directly to customers by sales representatives. Nonstore retailers may have sales representatives who either visit customers in their homes or call them by telephone. Avon, Tupperware, and Amway have long used their own sales representatives to call on customers.

Supply Chain

A channel of distribution is like a chain that links a raw material to the final
A channel of distribution is often referred to as a supply chain. The four segments of this supply chain are the producer, wholesaler, retailer, and consumer. Each segment is the supplier of the following segment. Each segment is the customer of the preceding segment.
intermediaries is called **direct distribution.** Many services have direct distribution. As you learned in Chapter 21, the production of a service is not separable from the use of the service. A manicure is not produced until the manicurist actually files and polishes the nails of a customer. A haircut does not exist until the hairdresser cuts your hair. These are examples of direct distribution. The service product is purchased directly from the service producer, 26-10.

Most goods have distribution channels with one or more intermediaries. A channel of distribution that uses one or more intermediaries is called **indirect distribution.**

Goods are sold to companies in the next segment of the channel. The step above the transaction is the seller. The step below the transaction is the buyer. Figures 26-7, 26-8, and 26-9 are examples of indirect distribution.

Choosing the best channel of distribution for a product is critical to the success of the product. A producer might have the best product in the world, but poor distribution decisions can cause the product to fail. Intermediaries provide important services to producers. Intermediaries specialize in distribution. As you learned in Chapter 1, *distribution* is the process of delivering products to customers. Distribution includes shipping, storing, inventory, and stocking. Distribution is a major part of the place *P* of the marketing mix.

Intermediaries are experts at making sure goods are in the right place, at the right time. The producers are experts at producing large quantities of their products. The apple farmer is expert at producing bushels of apples. The basketball factory is expert at producing truckloads of basketballs. The producers often do not have the expertise to do a good job at distribution. Since intermediaries specialize, they can often perform the movement of goods more economically than the producer can.

### Facilitating Exchanges

One of the major functions of intermediaries is facilitating exchanges. Intermediaries make the exchange process easier. Intermediaries facilitate exchanges for both consumers and for producers. The following are simplified examples of how intermediaries facilitate exchanges. These examples may seem too simple; however, they clearly show one of the basic functions that intermediaries perform for most of the consumer goods you buy.

#### Facilitating Exchanges

Three major functions of intermediaries include (1) facilitating exchanges, (2) break-bulk service, and (3) some of the Four *P* marketing activities. Intermediaries also handle physical distribution, which will be covered in Chapter 27, and retail inventory, which will be covered in Chapter 28.

#### Facilitating Exchanges

One of the major services of intermediaries is facilitating exchanges. Intermediaries facilitate exchanges for both consumers and for producers. The following are examples of how intermediaries facilitate exchanges. These examples may seem too simple; however, they clearly show one of the basic functions that intermediaries perform for most of the consumer goods you buy.

### Customer: One Place, Many Goods

Suppose you need apples, bread, canned soup, and eggs. If there were no intermediaries, you would have to go to the apple orchard for the apples, the bakery for the bread, the soup factory for the soup, and the chicken farm for the eggs.

Now think of how one intermediary can facilitate your grocery shopping. That one intermediary is a retailer, the grocery store. The grocery store takes on the task of contacting the apple orchard, the bakery, the soup factory, and the chicken farm. The grocery store buys products from the four producers. The grocery store handles the four transactions with the producers. You go to the grocery store. You have the convenience of picking up the apples, bread, soup, and eggs in one place. You also only have one transaction, that is, with the grocery store, 26-11.

#### Producer: One Transaction, Many Customers

Now think of the producer’s situation. The apple farmer wants to sell as many apples as possible. Imagine that there are no intermediaries. In order to sell his apples, the farmer would have to go to where the customers are. The farmer will have to take a day away from the orchard to go to a farmer’s market. Suppose the farmer wants to sell 20 bushels of apples. The most that one customer might buy is one bushel. Therefore, the farmer would have to handle at least 20 individual transactions with 20 separate customers.

Now think of how an intermediary could facilitate exchanges for the farmer. The farmer contacts the grocery store. The grocery store handles 20 bushels of apples. The farmer has one transaction for all 20 bushels. The grocery store handles the 20 or more individual transactions with the customers, 26-12.

#### Bulk-Breaking

Another important function of intermediaries is called **bulk-breaking** or **break-bulk service.** Most goods are shipped in large quantities, such as a truckload or a railroad carload. **Bulk** is another term for **large quantity.** Most consumers do not want a truckload of jeans or a railroad carload of computers. They usually want one of an item.
The grocery store will buy apples by the bushel, and then display them and sell them to customers a few at a time.

A manufacturer might decide to sell its goods in bulk directly to a retailer. This situation occurs with huge retailers that buy large quantities of goods from one manufacturer. For example, Walmart buys many of its goods directly from manufacturers. Walmart then handles all the bulk-breaking tasks. First the goods are broken into smaller quantities and delivered to each Walmart store. Then the retailer displays the goods, which the customers can buy in even smaller quantities.

Other producers sell their products in bulk to wholesalers. The wholesalers then break down the bulk and sell the products to retailers.

List five products that you buy singly, that is, one at a time. List five products that you buy two or three at a time. Name a product that you buy in large quantities. How many do you buy at a time? For each product, how many do you think the retailer buys at a time?

Reality Check

List five products that you buy singly, that is, one at a time. List five products that you buy two or three at a time. Name a product that you buy in large quantities. How many do you buy at a time? For each product, how many do you think the retailer buys at a time?

Some Four P Marketing Activities

Retailers are probably the intermediaries with which you are most familiar. Retailers do not make the goods they sell. Retailers are service businesses. They buy goods from wholesalers or producers. Retailers then offer these goods for sale to consumers. Retailers often perform some or all of the Four Ps of marketing.

- **Product.** Although retailers do not make the products they sell, they decide which goods to sell. The selection of goods to sell is very important to the success of the retail store. If the retail store buys a truckload of orange jeans, and they do not sell, the retail store will lose money.

- **Price.** You may have heard the phrase “manufacturers suggested retail price.” Manufacturers often suggest what price should be charged for their goods; however, it is the retail store that sets the price that the customer actually pays.

- **Place.** Retailers play a major role in determining the location where goods are sold. Place issues for retailers were discussed earlier in this chapter.

- **Promotion.** Next time you watch TV or open a newspaper, notice the businesses that sponsor the ads. A large number of them will be retail businesses. Retailers also advertise sales and special events designed to bring customers into the store. Retail stores also specialize in displaying goods in appealing ways. You will learn more about promotion in Part 7.

Channel Management

Once a company makes place decisions, it must make other choices about how to best get its products from the producer to the ultimate consumer. Managing all aspects of place and distribution fall under the umbrella of channel management. Channel management involves selecting, motivating, and evaluating all channel members over time to effectively control the movement of products from producer to consumer.

- **Selecting Channel Members.** For most products, the producer can choose from a number of channel members and methods to distribute its products. The producer needs to evaluate the following factors when selecting channel members: number of years in business, other product lines the channel member carries, reputation, previous experience with the company, financial stability, and quality of the sales force. For example, K and K Precision Products in Illinois uses steel to make quality parts for industries that manufacture automobiles and major home appliances. Because of its longevity in the steel industry, financial stability, and quality steel and sales force, Plymouth Steel—a Michigan company—is a chosen channel member for K and K.

- **Motivating Channel Members.** Producers want their channel members to promote, sell, and distribute their products to make a profit. In order to motivate channel members, producers may offer special deals, premiums, and sales contests to maintain long-term relationships. Because Plymouth Steel provides a quality product, competitive pricing, and prompt delivery, K and K Precision Products chooses to maintain a relationship with this company, 26-13. To maintain the relationship, Plymouth uses such strategies as regular phone contact, meetings, and collaboration at dinner meetings.

- **Evaluating Channel Members.** In order to evaluate channel members, a producer must set measurable performance.
standards. These standards may include prompt delivery time, cooperative advertising, meeting sales quotas, product quality, treatment of lost or damaged goods, and overall satisfaction. Most producers annually review their contracts with channel members. They replace members who perform poorly in meeting standards. For example, each year K and K reviews the performance of its suppliers, including Plymouth Steel, to determine if they have met K and K’s performance standards. If a current supplier has competitive pricing and meets or exceeds expectations, the supplier remains on the approved purchasing list. If it does not meet expectations, K and K will replace the supplier with a new channel member.

As you study physical distribution in Chapter 27, think about the influence of channel management in this process. What role does channel management play in such aspects of physical distribution as shipping, warehouse storage, and inventory control?

Ownership in the Distribution Channel

Distribution also involves activities associated with the transfer of ownership of products from the producer to the customer. The original owner is at the beginning of the distribution channel. The final owner is the customer at the end of the distribution channel. Most, but not all, of the intermediaries take ownership of the product as it moves through the channel. When ownership is transferred, responsibility for the product is transferred. The new owner is responsible for the product. Risk for the product is also transferred when ownership is transferred. The new owner is the one who will suffer any loss if the product is damaged or lost.

In the apple example shown in Figure 26-8, the apple wholesaler buys apples from the apple farmer. At this step, the apple farmer (producer) transfers ownership of the apples to the apple buyer (wholesaler). The producer gets payment for the product. The wholesaler now owns the apples. At this point, the wholesaler owns the apples and is responsible for them and shoulders the risk of loss. If the apples are lost or rot, the wholesaler takes the loss.

The apple buyer (wholesaler) is now a seller. The wholesaler sells the apples to the grocery store. At this step, the apple wholesaler transfers ownership of the apples to the grocery store (retailer). The wholesaler gets payment for the product. At this point, the retailer owns the apples and has the risk of loss. If the apples rot, the retailer takes the loss.

The retailer then sells three apples to you. You are now the owner of the apples. If the apples rot before you eat them, it is your loss.

The transfer of ownership is a process governed by law. A title is a legal document that verifies the owner of a good. For example, when you buy a car and complete your payments, you receive your title to the car. The title proves that you are the owner of the car. The phrase take title to means the same thing as take ownership of. For small consumer items, such as clothing and books, the receipt you receive when you pay serves as the document proving ownership.

Cherokee Nation
A Nation of Entrepreneurs

High unemployment. Companies are not hiring. People are unable to find jobs to support their families. Sound familiar? It may sound like 2009 but it was not. In the 1960s, the Cherokee people had few job opportunities. Instead of seeking work in other places, members of the Cherokee Nation tribe became entrepreneurs. In 1969, the Cherokee Nation started its own company to provide work for tribal people. Cherokee Nation Industries has grown into a multimillion dollar, diversified corporation.

The Goal—Job Creation and Services

The original goal of Cherokee Nation Industries was to use 100 percent of company profits to create jobs and provide services to Cherokee communities. Today, 30 percent of company profits directly support Cherokee Nation government programs that fund education, health care, social services, and other programs. In addition, 70 percent of the profits go to the Jobs-Growth fund, which is used to reinvest in the business enterprise to create more jobs for tribal citizens.

Historically, the company was a government contractor serving the aerospace and defense industries. Today, the company has diversified to include companies offering telecommunications, staffing services, office products, and construction management. In 2007, Cherokee Nation Industries was named one of the top diversified companies by DiversityBusiness.com.

A Global Company

One of its divisions, Aerospace and Defense, has contracts with Fortune 100 Department of Defense prime contractors, some with operations on five continents. Cherokee Nation Industries supplies parts and aviation components to unmanned aerial units, missiles, and NASA’s space program. The company delivers many supply chain advantages in order to ship products to these locations throughout the world. Cherokee Nation Industries has a long history of on time delivery, a reputation for quality work, and has been recognized by many of its clients as a top aviation industry parts manufacturer.

As a truly global company, the entire Cherokee Nation Industries can show others the way out of poor economic times. By starting successful businesses and continuing the tradition of entrepreneurship, people can find work they enjoy and support for their families.
CHAPTER 26 REVIEW

Remember This

- Place decisions answer questions about (1) location of the business, (2) hours of operation, (3) channels of distribution, and (4) transportation.
- Businesses should be located in places that are convenient for obtaining inputs and sending outputs.
- A good retail site should be (1) easy to get to, (2) visible to passing traffic, and (3) safe.
- A channel of distribution is the route a good takes from its original source to its final customer.
- A wholesaler sells to other businesses; a retailer sells to the final consumers.
- Intermediaries (1) facilitate exchanges, (2) break bulk, and (3) perform many of the Four P activities of marketing.
- Manufacturers use intermediaries because the intermediaries perform the tasks of distribution better and for less cost than the manufacturer can.
- Channel management helps control the movement of products from producer to consumer.
- In a distribution channel, ownership is transferred from the original owner to the channel members to the final customer.

Review Concepts

1. What is the main goal of place decisions?
2. Before making place decisions, what should marketers know?
3. What utilities do place decisions add to a product?
4. What is another term for location?
5. What is the difference between a wholesaler and a retailer?
6. Draw a diagram that shows the most common channel of distribution for consumer goods.
7. What type of channel of distribution is most common for services?
8. Why do manufacturers use intermediaries?
9. How does channel management help control the movement of products from producer to consumer?
10. What happens to ownership of products as they move through a distribution channel?

Think Critically

1. Why is location such an important decision for a business?
2. Suppose a retailer has a Web site. What kind of market coverage would the Web site be?
3. Imagine that you are sitting in a fast-food restaurant enjoying a hamburger. Describe the channels of distribution for all the products on your hamburger plate.
4. Imagine that you want to start an export business. Why would it be beneficial to use a broker?
5. Imagine that you are shopping for groceries. How do intermediaries make your shopping easier?
6. Imagine that you are a producer. How do intermediaries make it easier to sell your product?
7. Why are retailers called service businesses?

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out the channels of distribution that the company participates in. Make a chart that shows the channel of distribution.
2. Intermediaries often perform some of the Four Ps. For example, retailers often advertise. Find an ad from a retailer that features the products from more than one manufacturer.
3. Find an ad for a company that sells real estate. How much would the real estate company have had to spend if it had to buy all the properties advertised?

Explore Careers

2. Read the article, “Wholesale Trade” in the Occupational Outlook Handbook. At the top right of the first page of this article appears the following: (NAICS 42). What does this mean? How does the Handbook describe the role of the wholesale industry? Describe the “marketing ploy” used by many retailers to make themselves look like a lower-price source of goods. What kinds of jobs are available in the wholesale trade?

Connect to the Internet

1. Visit the Web site of a retailer. Find the locations of this retail store. What type of market coverage does this store have? Explain why the store has this type of coverage.
2. Choose a consumer product that you use. Use the Internet to develop the supply chain for that product. Find out the specific channel members for that product. How does channel management help get the product to the consumer?