

# Module 2: Product Development

## Lesson 4 - Distribution & Supply Chain

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### OVERVIEW

In this lesson, students will gain a fundamental understanding of the concept of distribution while exploring the relationship between price and distribution.

### OBJECTIVES

1. Define distribution.
2. Differentiate between direct and indirect distribution.
3. Identify the various channels for distribution.
4. Explain the supply chain.
5. Recognize the various stages of delivery.
6. Describe the impact distribution has on price.

### KEY TERMS

*Delivery*

*Distribution*

*Supply Chain*

### This Lesson Bundle Includes:

- Distribution & Supply Chain - Lesson Outline
- Distribution & Supply Chain - Presentation Slides
- Industry Application - Related Links



# Lesson 4 - Distribution & Supply Chain

## DISTRIBUTION

### What is Distribution?

In marketing, **distribution** refers to the path goods and services take en route to the end consumer (the individual who uses the product or service). The end consumer is not necessarily the person or persons who *purchase* the product or service, but rather the person or persons who *use* the product or service.

For a business to succeed, it must develop effective distribution strategies that will allow for the best possible delivery of goods and services to customers. Ineffective distribution can lead to unhappy customers. Think about a time when you ordered something online and the shipment was delayed or an order went unfulfilled. How satisfied were you as a customer?

### Direct vs Indirect Distribution

There are two primary channels of distribution, direct and indirect. These channels are represented by a chain of organizations that are responsible in some form for getting goods and services to customers. Organizations in the supply chain could include the retailers or online businesses that sell the goods or services, the manufacturers who produce goods and services, warehouses, and shipment facilities.

#### Direct Distribution

**Direct distribution** allows for the producer of goods and services to deliver the product directly to customers. This is often referred to as “direct to consumer” (DTC) and has become a more popular, and reliable, form of distribution as technology has evolved. Direct distribution removes the need for a middleman.

#### Indirect Distribution

**Indirect distribution** requires intermediaries to help deliver goods and services to customers.

**These intermediaries could include:**

- Wholesalers
- Distributors
- Retailers

### Using Both Distribution Channels

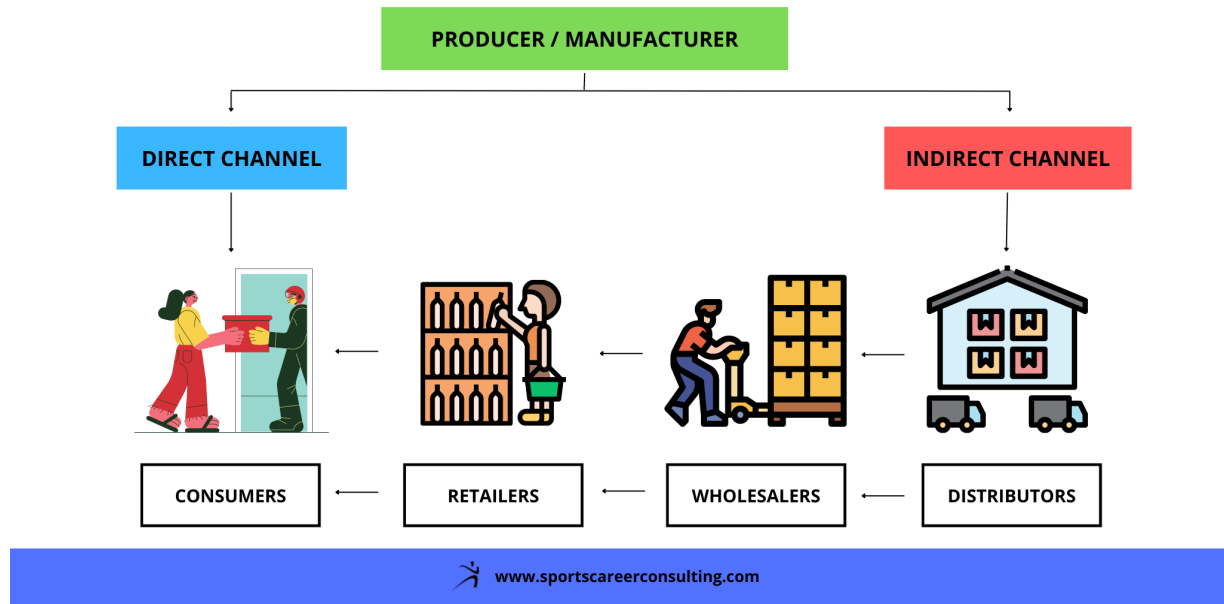
Sellers might also rely on both direct and indirect forms of distribution. Take for example a small, independent producer of herb and spice blends for cooking. Let’s call it the Midwest Trading Company and they have a small retail space in a strip mall where the product is available to consumers onsite.

- Indirect distribution
  - Sell to distributors, who then sell to wholesalers and/or retailers, who sell to the end consumer
- Direct distribution
  - Sell directly to consumers onsite at the company’s own store or physical location
  - Sell directly to consumers online





# Direct vs. Indirect Distribution



## Distribution Channels

### Basic distribution channel categories:

1. Zero-level channel
2. One-level channel
3. Two-level channel

### Zero-level distribution channel

Direct-to-consumer sales would be considered a zero-level distribution channel.

### One-level distribution channel

A one-level distribution channel exists when a distributor or wholesaler supplies the product to a retailer who then sells it to the end consumer.

### Two-level distribution channel

A two-level distribution channel exists when the producer/manufacturer supplies the product to a distributor or wholesaler, who supplies the product to a retailer, who then sells to the end consumer.

## Types of Distribution Channels

There are a number of different ways products and services reach end consumers. Each is defined by a specific type of distribution channel.

### The four basic types of distribution channels:

1. Direct to consumer (DTC)
2. Distributors
3. Wholesalers
4. Retail





## Direct-to-Consumer (DTC)

Direct-to-consumer provides the quickest path for a producer or manufacturer to get a product in the hands of the end consumer. In recent years, several companies have built strong businesses with a focus on a direct-to-consumer distribution model. Companies like Allbirds (shoes), Casper (mattresses), and Harry's (razors) have shown that a business can be successful with a direct-to-consumer approach.

## Distributors

Distributors work with producers and manufacturers to help maximize product and service sales. In addition to supplying products and services, distributors will also help to promote the product or service to increase sales. They generally manage a very large service area.

## Wholesalers

Wholesalers are individuals or businesses who purchase products in bulk directly from the producer or manufacturer. Wholesalers then redistribute products, typically to retailers.

## Retail

Retailers are shops and stores, including both physical locations (brick-and-mortar stores) and online. Retailers include big-box stores, department stores, and supermarkets. Specialty stores often establish retail locations as well.

## Exclusive distribution

Two parties may choose to partner for rights to an exclusive distribution arrangement. With exclusivity, a good or service is available to consumers only from a single third-party sales outlet.

### Exclusive distribution example: Buffalo Wild Wings, Mountain Dew & Doritos

MTN DEW teamed up with Buffalo Wild Wings in 2020 for the exclusive distribution of its new "LEGEND" flavor while Doritos also teamed up with the popular restaurant chain for exclusive distribution of its "Doritos Flamin' Hot Nacho" sauce.

- NBA star Klay Thompson, brand ambassador for Buffalo Wild Wings, said in a press release, "Buffalo Wild Wings and MTN Dew are a legendary combination, so it makes sense that B-Dubs is the only place you can get the new MTN DEW LEGEND. MTN DEW LEGEND is delicious and pairing it with the Doritos Flamin' Hot Nacho sauce is a slam dunk, both exclusively available at B-Dubs."
  - Click [here](#) to watch the commercial on Buffalo Wild Wings' official YouTube channel



### DISCUSSION TOPIC

Businesses have been hit hard by supply chain issues as disruptions began to occur as a result of the COVID-19 pandemic. As consumers spent more on home goods and less on services like dining out and going out to the movies, securing durable goods became more challenging.

#### Discussion Questions:

- Can you think of an example of a time you heard the term "supply chain" in the last two years?
- Were there any products that you wanted to order online that had long wait times before you would receive the product?
- Were there any products that you could not get during the pandemic because of supply chain issues?



## Supply Chain

When the COVID-19 pandemic struck, disruptions to the supply chain made headlines all over the world. So what is the supply chain? A **supply chain** describes the relationship between businesses and suppliers that establish a path for goods to reach the end consumer.

When a disruption occurs at any point in that path, it can lead to an increase in product cost and or delays in delivery times.

### Example: Restaurant Supply Chain Challenges

Several popular restaurant chains have struggled to meet the demand for certain menu items as a result of supply chain issues.

Taco Bell brought its popular Mexican Pizza back in May of 2022, but had to remove the item from menus because it couldn't keep up with demand

- Click [here](#) to read 'Taco Bell pulls 'Mexican Pizza' from the menu after supplies run out' from yahoo.com

Huy Fong Foods, maker of Sriracha sauce, was forced to temporarily halt production of the popular condiment as they dealt with shortages of peppers required to make the product

- Click [here](#) to read 'Why is there a Sriracha hot sauce shortage? Here's what you need to know' from nj.com

Just weeks after announcing it would use oat milk in several products on the menu, Starbucks customers were disappointed to learn that some drinks were unavailable due to supply chain issues

- Click [here](#) to read 'Your local Starbucks might be out of oat milk — here's why' from today.com

A chicken shortage led to Wingstop launching a promotion selling chicken thighs instead of chicken wings

- Click [here](#) for the story 'They eat like a wing, but with more meat': Wingstop launches Thighstop amid chicken wing shortage' from usatoday.com



Photo via Wingstop Twitter @Wingstop <https://twitter.com/wingstop/status/1407760379640528897>  
(Links to an external site.)

## Inventory Management

**Inventory** refers to the number of goods, products, or services a business has available to sell to customers. Inventory includes both tangible and intangible items, ranging from office furniture at IKEA to the number of 30-second advertising time slots ESPN has available to sell during a prime-time NFL football game.

It is important for businesses to effectively manage inventory. Businesses track inventory using an inventory management system. When a business has too little inventory, they are not able to maximize sales. When a business has too much inventory,



costs increase, and revenue decreases. Depending on the type of product or service, inventory management becomes even more important. For perishable items, a business has just a short period of time that it can buy, stock, and then sell merchandise before it loses its value.

### Example: Inventory management

Like many retailers in 2022, Target mismanaged its inventory and ended up with too much inventory with a surplus of products ranging from patio furniture to general household goods. To reduce inventory and offload product that had been sitting on its shelf for months, the company (which rarely offers major discounts or clearance sales) was forced to slash prices by as much as 70%, according to [Axios](#).

## Delivery

Delivery defines a key role in the distribution and supply chain process. **Delivery** describes how consumers receive what they have paid for by way of distribution and transport. The term delivery is all-encompassing and could refer to goods being transported from a warehouse to a retailer, digital delivery of a video game, or a pizza delivered to a customer's home. Place doesn't just describe where consumers make a purchase. It also describes how they receive what they have paid for.

**In supply chain terms, there are three primary stages of delivery:**

- First Mile
- Middle Mile
- Last Mile

### First Mile

In the first mile stage of delivery, the product leaves the place of origin and is transported to the next destination in the supply chain. For example, Apple products are made in China. The first mile of delivery begins at the Chinese factory where the product was made to a U.S. port. In the U.S., the majority of products come to America from ports in Los Angeles and Long Beach.

### Middle Mile

In the middle mile stage of delivery, goods are transported from the first destination to whichever stops are necessary before it is ready for delivery to the consumer. For example, a footwear product would be transported from port to a warehouse or distribution center.

### Last Mile

The last mile refers to whichever mode of transportation delivers the product to the end consumer. This is the final path of delivery, and could be via drone, DHL, FedEx, or any other transportation service to a retail location or the consumer's doorstep.

### Example of Delivery Stages in the Supply Chain

Let's explore how the supply chain impacts your pizza order at a restaurant like Domino's or Papa John's.

- First Mile → Ingredient supplier like Tillamook Cheese ships product from its facility to a supplier or wholesaler like Cisco
- Middle Mile → Cisco delivers the ingredients to the restaurant
- Last Mile → Domino's or Papa John's delivers the pizza to the customer's doorstep, or the consumer might choose to purchase the pizza online, pick up at the store and bring it home themselves (this is called Buy Online Pickup in Store or BOPUS)

## Distribution & Supply Chain Evaluation

Businesses are consistently evaluating distribution strategies and supply chains to determine the most cost-effective way for delivering products to consumers in a way that keeps consumers satisfied.





### Recent examples include:

Walmart has been testing drone delivery services, flying customer orders directly to their doorstep via drone, with plans to expand to more than 4 million homes in six different states by the end of 2022. When the company first launched the program in late 2021, the service was only available in one single town in the state of Arkansas

- Click [here](#) to read 'Walmart expands its drone-delivery service to reach 4 million households' from cnbc.com

Domino's, who does not partner with food service delivery app services like UberEats or GrubHub, recognizes the competition and launched a promotion to promote its own delivery service (for which they do not charge). Due to staffing shortages, the company's delivery time had slowed, so the promotion also helped to appease frustrated customers.

- Click [here](#) to read 'Domino's Pizza Is Fighting Delivery Apps With \$50 Million In Free Food' from usatoday.com

## Distribution Impact on Price

Distribution factors and supply chain management impact the function of pricing. Supply chain costs that producers and manufacturers incur are typically passed on to the consumer.


### Supply chain costs include:


- Production costs
- Mark ups
- Taxes and tariffs
- Shipping and transportation costs
- Inventory costs
- Quality control

Direct-to-consumer distribution does not necessarily result in lower prices for the consumer. In many cases, businesses use DTC distribution to increase their profit margin.

## Distribution, Supply Chain & The Price of Goods & Services

- PRODUCTION COSTS
- MARK UPS
- TAXES AND TARIFFS
- SHIPPING & TRANSPORTATION COSTS
- INVENTORY COSTS
- QUALITY CONTROL

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## KEY TAKEAWAY

In marketing, **distribution** refers to the path goods and services take en route to the end consumer (the individual who uses the product or service). The end consumer is not necessarily the person or persons who *purchase* the product or service, but rather the person or persons who *use* the product or service.

For a business to succeed, it must develop effective distribution strategies that will allow for the best possible delivery of goods and services to customers. Ineffective distribution can lead to unhappy customers. The **supply chain** can play a significant role in the distribution process.



## INDUSTRY APPLICATION

Connect your classroom with industry examples by reviewing the following news stories relating to concepts covered in this lesson:

**Exclusive distribution** - [Brisk Launches Brisk Dragon Paradise Sparkling Iced Tea. Available Exclusively at Taco Bell Nationwide](#)

**Supply chain** - [Taco Bell has run out of Mexican Pizza. Here's what happens now](#)

**Supply chain** - [The Huge Way Wingstop Is Dealing With The Supply Chain](#)

**Supply chain** - [Supply chain issues impacting Nashville hot chicken restaurants](#)

**Delivery** - [7-Eleven Promotes Slurpee Delivery During 'Brainfreeze Season'](#)

**Delivery** - [Amazon takes stake in Grubhub, offers free Prime food delivery](#)

## KEY TERMS DEFINED:

**Delivery:** How consumers receive what they have paid for by way of distribution and transport.

**Distribution:** Refers to the path goods and services take en route to the end consumer (the individual who uses the product or service).

**Supply chain:** The relationship between businesses and suppliers that establishes a path for goods to reach the end consumer.