Evaluate DISTRIBUTION CHANNELS *Effectively*

by Bob Livingston

What do customers want? They want to know they are important. They want every interaction with you to confirm this. Customers want to obtain the product quickly and easily, with service that surpasses the service they can receive from your competitors.

Distribution channels are the way goods and services move from the producer to the consumer. For example, a publisher may sell through bookstores, or a catalog, or through a book table in a church, or through displays in a gas station or in a grocery store.

Customers do not all purchase goods in the same place, and no one distribution channel will satisfy all your customers. A variety of channels—and the right mix—is the key to providing customer choice. To select distribution channels effectively, define the outcomes wanted from your channels for your customers. Your channels help you develop and sustain relationships with your customers. It does not matter how good the books are, if they do not get to the customers who need them.

List available distribution channels

Determining the most profitable, efficient and customer-valued channels is as important as designing and producing the products themselves. Begin by identifying how competitors' products are sold. Make a list of all competitors in your market that compete directly for the same customers in your target audience. Then, divide the list into different distribution channels. Some channels you may consider are Christian book distributors, individual Christian retailers, secular and university bookstores, street vendors, markets, newsstands, kiosks, churches, schools, independent agents, and other channels that exist in your country. Then, estimate dollar sales per year by channel. Some results may surprise you!

Decide which channels best suit you

Next, analyze your publishing firm's opportunities with the distribution channels you have identified. Some key questions to consider are:

- What are the barriers to sales in each channel?
- How much do various distribution channels cost to successfully enter? Over what period of time is this money being spent?
- Should the publications be distributed locally, regionally, nationally? And, in what order, or through all channels at the same time?
- Are some of the items sold subject to varying product life cycles?
- What types of competitive spending, promotions, advertising, ad field sales response will our business entry encounter in each channel?

Other considerations are ease and affordability of entering the product category (e.g. publishing magazines when all that has been done in the past is books) and existing competitors' market shares by channel.

> ***What matters is not what you gross, but what you net from each one of your distribution channels.***

Suppose you have determined that your product can be sold in most of the distribution channels that you identified, and that the barriers are low. The revival in your country has created a great demand for Christian product, and the material you offer is long-lasting and not subject to a short life cycle. How, then, do you next determine which distribution channel will contribute most to your profit margins?

Measure channel profitability

It's not what you gross, but what you net, that's important. Each channel has specific costs. Typical costs may include: discounts, commissions, quantity pricing, financial terms, advertising and promotion, freight, handling, fixtures, specialized equipment, returns, warehousing, etc. There might be a channel that sells 100 books every month, but requires a 50 percent discount and demands you cover freight costs. Or, you might have an agent who sells 30 books a month and receives a 20 percent commission. Which channel garners greater profits per book sold? In order to determine this, two financial tools will help: 1) a contribution analysis and 2) a break-even analysis. They require a thorough understanding of your fixed versus variable costs. Variable costs increase directly in proportion to the level of sales dollars or units sold. Fixed costs remain the same regardless of the sales level. A contribution analysis focuses on how many dollars can be contributed toward fixed costs and profit by a specific channel after deducting all variable/direct costs associated with that channel. A break-even analysis focuses on the volume of sales at which total revenues equal total costs. Both of these tools are useful in analyzing and prioritizing the various channel opportunities.

Once the analysis of each distribution channel has been conducted, determine which distribution options match your overall marketing strategy. Keep in mind that smaller companies must work harder at focusing limited resources. Some distribution channels may be attractive, but not well-matched to the strategy of your company.

Consider your options

Prioritize your distribution options. It is not always possible for a company to take advantage of all possible channels that match the marketing strategy it wants to achieve. Financial considerations aside, it might be wise to prioritize the orderly development of each channel, and attack each channel in order of easiest entry and least competitive resistance, for example. Key factors to prioritize this choice could include:

- Financial resources and risks (“How much money do we have to risk against our objectives and marketing programs?”)
- Competitors’ strengths and market share (“Are they big enough and mean enough to hurt us, and what are their objectives?”)
- Management experience by channel (“What do we know about each channel’s opportunities and threats?”)
- Product positioning to target buyers (“Will the strengths of our product help sell it to interested buyers? Can we effectively promote our uniqueness?”)

In addition, a publisher should consider such factors as geographic proximity, ability and availability of management to control many different channels simultaneously, the availability of experienced sales agents, marketing experience by channel, competitive strengths by channel, manufacturing capacities, and product life cycles by channel.

Your publishing company may have products that would appeal to many different channels of distribution in a single market. However, especially when there are limited resources, it may be best to select a limited number of distribution channels.

The effectiveness, productivity and profitability of the distribution channels must be reviewed regularly because markets change and products move along the product life cycle. Manage your distribution channels, but remember the best strategies will only succeed if the people responsible for them have the knowledge, skills and motivation to make them work.❖

Bob Livingston is the Sales Director for the Home Development Group of Cook Communications Ministries in the United States.

Contribution Analysis

Gross Sales	$XXX
Less discounts	(XX)
Net Sales	$XXX
Less Cost of goods	($XXX)
Gross Profit	$XXX
Less Direct Costs	
A&P	($XXX)
Shipping	(XXX)
Handling	(XXX)
Commissions	(XXX)
Other costs	(XXX)
Channel Contribution Margin	$XXX
Less Fixed Costs	($XXX)
Profit Contribution	$XXX

Break-even Analysis

$$\text{Breakeven Sales Dollars} = \frac{\text{Fixed Costs}}{\text{1 - Variable Costs as \% of Sales}}$$

$$\text{Breakeven Unit Sales} = \frac{\text{Fixed Costs}}{\text{Unit Cost}}$$