UNIT 9: PLACE
AIRLINE DISTRIBUTION CHANNEL

OUTLINE

Distribution Channel

- Definition
- E-ticket and its impact
- Classification of distribution

Direct & Indirect Channel

- Direct channel
- Indirect channel
- Types of travel intermediaries

GDS & choosing channel strategy

- Benefit & limitations of GDS
- What is the right distribution strategy

Place

Where do buyers look for your product or service?

If they look in a store, what kind? A specialist boutique or in a supermarket, or both? Online? Or direct, via a catalog?

How can you access the right distribution channels?

Do you need to use a sales force? Or attend trade fairs? Or make online submissions? Or send samples to catalog companies?

What do your competitors do, and how can you learn from that and/or differentiate?

Through the use of the right place, a company can increase sales and maintain these over a longer period of time. In turn, this would mean a greater share of the market and increased revenues and profits.

Correct placement is a vital activity that is focused on reaching the right target audience at the right time. It focuses on where the business is located, where the target market is placed, how best to connect these two, how to store goods in the interim and how to eventually transport them.

What is a Distribution Channel?

A distribution channel can be defined as the activities and processes required to move a product from the producer to the consumer. Also included in the channel are the intermediaries that are involved in this movement in any capacity. These intermediaries are third party companies that act as wholesalers, transporters, retailers and provide warehouse facilities.

Types of Distribution Channels

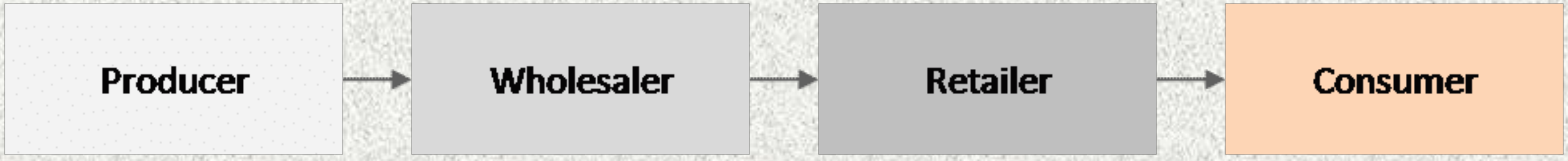
There are **3 main types of distribution channels.** These are:

1.Direct

The manufacturer directly provides the product to the consumer.

- The business may own all elements of its distribution channel or sell through a specific retail location.
- Internet sales
- One on one meetings .

One benefit of this method is that the company has complete control over the product, its image at all stages and the user experience.



Indirect distribution

2. Indirect

A company will use an intermediary to sell a product to the consumer. The company may sell to a wholesaler who further distributes to retail outlets. This may raise product costs since each intermediary will get their percentage of the profits. This channel may become necessary for large producers who sell through hundreds of small retailers.

3. Dual Distribution

A company may use a combination of direct and indirect selling. The product may be sold directly to a consumer, while in other cases it may be sold through intermediaries.

This channel may help reach more consumers but there may be the danger of channel conflict. The user experience may vary and an inconsistent image for the product and a related service may begin to take hold.

DISTRIBUTION CHANNEL INTERMEDIARIES

Consumer goods

Distribution channel intermediaries The middlemen facilitate the distribution process through their experience and expertise. There are four main types of intermediaries:

1. Agents

The agent is an independent entity who acts as an extension of the producer by representing them to the user. An agent never actually gains ownership of the product and usually make money from commissions and fees paid for their service

2. Wholesalers

Wholesalers are also independent entities. But they purchase goods from a producer in bulk and store them in warehouses. These goods are then resold in smaller amounts at a profit. Wholesalers seldom sell directly to an end user. Their customers are usually another intermediary such as a retailer.

3. Distributors

Similar to wholesalers, distributors differ in one regard. A wholesaler may carry a variety of competition brands and product types. A distributor however, will only carry products from a single brand or company.

A distributor may have a close relationship with the producer.

4. Retailers

Wholesalers and distributors will sell the products that they have acquired to the retailer at a profit. Retailers will then stock the goods and sell them to the ultimate end user at a profit.

What is Distribution Strategy?

Distribution Strategy is a strategy or a plan to make a product or a service available to the target customers through its supply chain.

A company can decide whether it wants to serve the product and service through their own channels or partner with other companies to use their distribution channels to do the same.

Some companies can use their own exclusive stores for their own products or can use available retail chains to sell their products. It can be combination of both. Many companies these days also use online exclusive channels to sell their products or services.

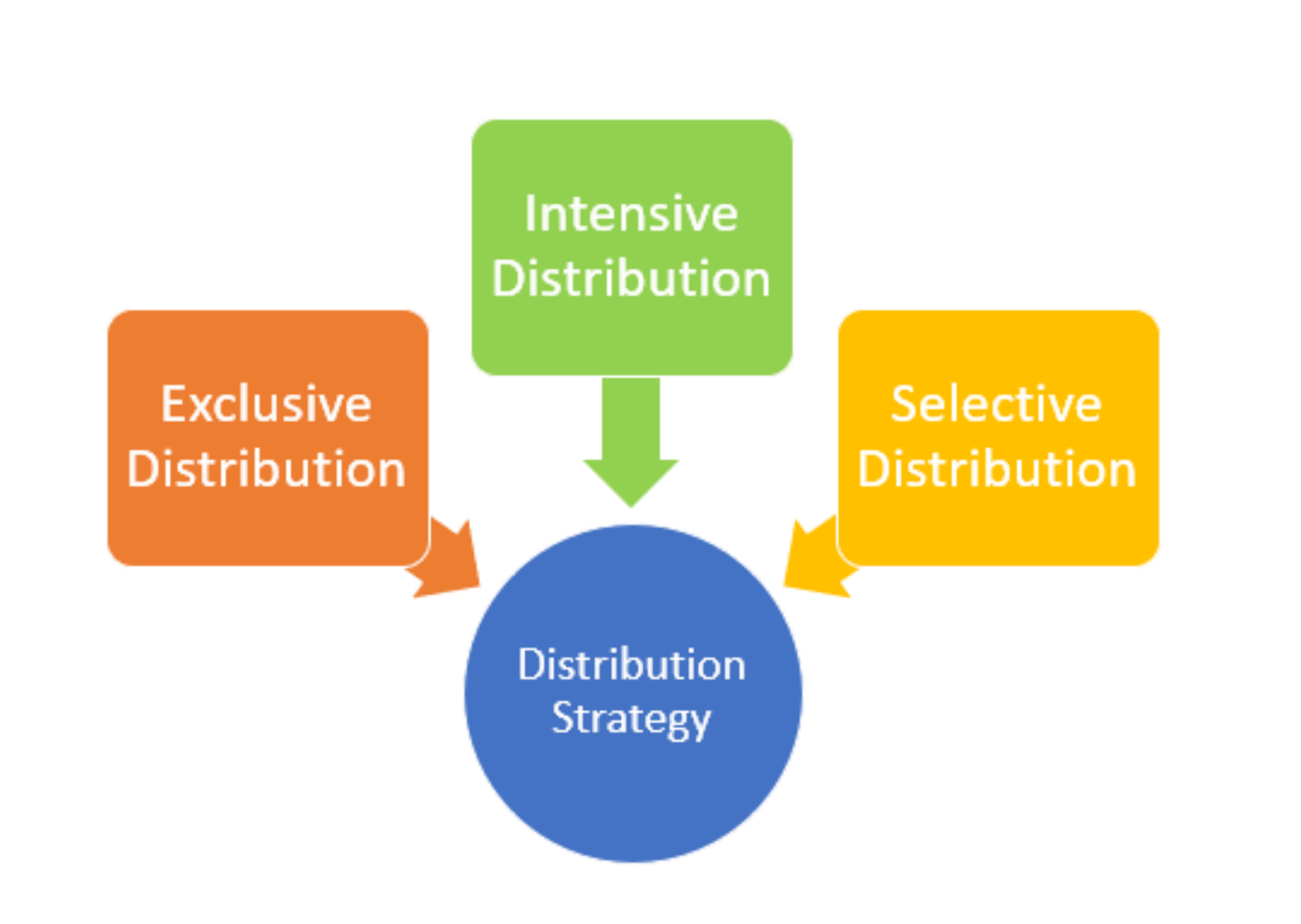
Selecting Distribution Strategies

A company may need to use different strategies for different types of products. Three main strategies that can be used are:

Intensive Distribution – This strategy may be used to distribute lower prices products that may be impulse purchases. Items are stocked at a large number of outlets and may include things such as mints, gum or candy as well as basic supplies and necessities.

Selective Distribution – In this strategy, making a product available in more than one outlet but not in as many as are willing to stock it. These may include items such as computers or household appliances that are costly but need to be widely available to allow a consumer to compare.

Exclusive Distribution – A higher priced item may be sold at a single outlet. This is exclusive distribution. Cars may be an example of this type of strategy.


Intensive Distribution
Exclusive Distribution
Selective Distribution
Distribution Strategy

Many companies use online as well as offline strategies together to optimize sales e.g. Apple iPhone.

In many situations one or more distribution channels can be used, for example (there are many more forms apart from these)

1. Manufacturer -> end customer
2. Manufacture -> agent -> end customer
3. Manufacturer -> retailer -> end customer
4. Manufacturer -> wholesaler -> retailer -> end customer
5. Manufacturer -> reseller -> retailer -> end customer
6. Manufacturer -> franchisor -> franchisee -> end customer

Distribution strategy should be optimized and updated regularly.

FACTORS AFFECTING DISTRIBUTION STRATEGY

1. Location of business

If location of business is near a port or railway lines, then we can rely on that mode for distribution and save costs as well.

2. Location of target market

If end customer is located or interacting with similar products at a particular location then the product should be available near offices or inside offices through partnerships so that the product is available where the demand is.

3. Reaching the target market

The end goal of a product is to reach the target audience when required. Distribution strategy has to ensure that the product reaches the potential customers when they look for it. During summers e.g. a beverage company would make sure that it is present in all retail stores in sufficient quantity.

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4. Warehousing

Properly storing the inventory at appropriate locations is an important

5. Transportation and logistics

Transportation is one of the most important aspect of distribution strategy. Without proper transportation either the product will not reach the target market in time or may be it would not be in right quality. e.g. if a company deals in frozen foods, then it needs to make sure that the transportation and logistics are taking care of that through cold storage and temperature maintenance.

Product, price and promotion may have the following impacts on the distribution strategy:

Impact of Product Issues

The type of product being manufactured is often the deciding factor in distribution decisions. A delicate or perishable product will need special arrangements while sturdy or durable products will not require such delicate handling.

Impact of Pricing Issues

An assessment of the right price for a product is made by the marketing team. This is the price at which the customer will be willing to make the purchase. This price will often help decide the type of distribution channel. If this price does not allow a high margin, then a company may choose to use less intermediaries in its channel to ensure that everyone gets their cut at a reasonable cost to the manufacturer.

Impact of Promotion Issues

The nature of the product also has an impact on the type of promotions required to sell it. These promotion decisions will in turn directly affect the distribution decisions.

Disposable goods or those of everyday use do not require too many special channels. But for a car, there needs to be extensive salesperson and user interaction. For this type of product, a specialist channel may be needed.

DISTRIBUTION

Definition

- **Making the travel product available to the right customer at the right time and in the right manner**

Airline needs to answer these questions to set distribution channel

- How should we pay and serve our travel agents?
- Where should sales and reservation offices located?
- What should be open hours?
- What GDS system should be use?
- What type of internet site and what products should be sell on it?
- What social media channels should use to promote our airline and allow customers to book through?

DISTRIBUTION

E-ticket and its impact

- Lower cost
- Efficient of revenue/payments
- Reduction in fraud
- Growth of direct sale
- Eliminate cost of commission

Classification of distribution

	Traditional	New
Direct	Airline sale shops	Internet website
Indirect	Travel Agent	Preferred channel providers eg. Traveloka application

DIRECT & INDIRECT CHANNEL

Direct channel

Started from the concept

- to minimize cost,
- introduce simplicity,
- take advantage from the growing of e-commerce
- Using their own reservation system
- Communicate via website

Direct channel

3 benefits

- Cost saving
- Able to communicate directly with customers (24 hrs.) & around the globe
- Able to build relationship with customers without agency

DIRECT & INDIRECT CHANNEL

Indirect channel

- Travel agents can provide advice
- Inform customers about different airline travel option, hotels & car rental
- Can influence customer's choice
- Meet special requirements that airline unable to deliver Ex. Ship's crew require specific travel & health requirements
- Some pax prefer to buy package

Types of travel intermediaries

- Multiples: are companies which operate a chain of retail outlets
- Miniples: companies with a small number of branches often in a particular geographical
- Web based travel agent: ex. Expedia.com
- Call Center
- **Independent travel agents** are companies that cater for the needs of residents in a small towns.

ALLIANCES

Definition

- a long term partnership of two or more companies that try to enhance their competitiveness by sharing resources including brand assets and market access capability

Development of major airline alliances

- original model start from KLM & Northwest Airlines
- Today, 3 alliances
- Star: founded by Lufthansa & United Airlines
- Sky Team: founded by British Airways & American Airlines
- One World: founded by Delta & Air France/KLM
- Alliances might weaken corporate cultures and strategies

AN AIRLINE'S VIEW OF ALLIANCES

Airline perspective

- **3** main benefits
- Revenue generation
- Cost reduction
- Competitive advantage

- **Revenue generation**
- Entry to new market with low cost
- Enlarge network due to code share
- Better coverage during a day by working with partner airlines

AN AIRLINE'S VIEW OF ALLIANCES

- **Cost reduction**
- Reduce need for airport and sales staff overseas
- Purchasing power for services ex. Airport ground handling, catering
- Joint lounges at the airport
- Joint promotion, advertising
- Maintenance & engineering support to each others
- Knowledge and expertise sharing
- Airport facilities and equipment sharing
- Rationalized schedules and better use of resources

AN AIRLINE'S VIEW OF ALLIANCES

- **Competitive advantage**
- In term of geographical reach, destinations & frequencies
- Access to airport slots at congested airports, alliance partners can exchange with each other
- Frequent Flyer Programs are more attractive with alliances
- Using IT across all member airlines, including internet, mobile check-in, application

AN AIRLINE'S VIEW OF ALLIANCES

Pros and Cons

Pros	Cons
Code sharing	Impact airline brands
Lower-risk	Loss flexibility-joint decision making
Alliance branding	Red tape, alliance bureaucracy
Some protection against competitors	Joint development costs
Network dominance	Joint branding, promotion & advertising costs
Visibility, GDS presence and scope	Brand confusion
Economies of scale	Exits costs-penalties if you leave an alliance

AN AIRLINE'S VIEW OF ALLIANCES

Ensuring alliance is successful

- Must have common vision of the group ex. Branding, sale policies, e-commerce, network growth
- Commitment from senior leadership team
- Communication at all levels between alliance partners
- Benefit of alliance member must be quantifiable
- Flexibility to environment change

AN AIRLINE'S VIEW OF ALLIANCES

Do alliances benefit customers?

- Greater frequency & choices
- Frequent flyer benefits
- Variety of fare products
- Common service standards
- Better connecting- bags transfer, timing between flights
- Common terminal usage

AN AIRLINE'S VIEW OF ALLIANCES

Joining alliances

considerations

capabilities	• To perform • To learn • To change
Benefits	• Value • Market enlargement • Cost reduction • New competencies
Resources	• Financial strength • Managerial skills • Personnel
Own strategy	• Strengths/weaknesses • Objectives • Long/medium term goal

AN AIRLINE'S VIEW OF ALLIANCES

Joining alliances

considerations

Risks	• Customer confusion • Image erosion • Loss of sovereignty • Employee resistance
compatibility	• Of partners' strategy • Of organization • Of product offering • Of executive personalities
Costs	• Synergies • Co-operations
Dynamics of competition	• Consideration • Competition between group • Changes in strategy

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