

9

Supply Chains and Distribution Channels

LEARNING OBJECTIVES

- Identify the elements that comprise a supply chain
- Distinguish between horizontal integration and vertical integration with respect to supply chains
- Describe the advantages and disadvantages of brick-and-mortar retailers as distribution sites
- Describe the advantages and disadvantages of online distribution sites
- Explain the importance of a digital marketplace distribution site

Supply Chains

A supply chain is the network of activities involved in moving raw materials through manufacturing to finished products delivered to consumers.

THE BASIC ELEMENTS OF A SUPPLY CHAIN

Suppliers

Provide the raw materials used to create products, such as cotton to make clothing



Manufacturers

Use raw materials to build products



Distributors

Move products from from the build stage (manufacturing) to the sell stage (customers)



Customers

Find your finished product online or on a store shelf



Supply Chains (cont.)

- Strengthening Your Supply Chain:
 - Horizontal integration involves merging with or acquiring competitors at the same level of the supply chain to share costs or expand market reach (e.g., Facebook acquiring Instagram)
 - Vertical integration involves purchasing several stages of the supply chain to gain control over timeliness and quality (e.g., Apple manufacturing its own devices and software)
 - Trade-offs:
 - Horizontal integration can lead to loss of identity or fewer consumer choices
 - Vertical integration increases responsibility for every link in the chain.

Building the Product

Production Options:

- Digital options include in-house development, outsourcing to freelancers, using no-code platforms, or licensing.
- Physical options include handmade small batches, mass manufacturing, outsourcing to third parties, or dropshipping.
- Service options include delivered directly by the entrepreneur, through contractors, or via automated digital tools like chatbots.

Building the Product (cont.)

Production Requirements:

- Knowledge: The skills, expertise, and technical training needed (e.g., baking skills for a bakery)
- Materials: The physical tools, equipment, and raw resources used (e.g., an oven or flour)

Building the Product (cont.)

Evaluating Success:

- Return on Investment (ROI):
 - This calculates if a product makes more than it costs.
 - High ROI products should be prioritized over low ROI ones.
- Performance and Quality Criteria:
 - These are measurements of function, durability, customer satisfaction, and efficiency.
- Quality Control Testing:
 - This is beta testing for digital products, safety testing for physical goods, or the use of mystery shoppers for services.

Distribution Channels

- Brick-and-Mortar Distribution Channels:
 - Advantages:
 - High visibility
 - Close customer relations
 - Immediate possession for customers
 - Fewer shipping issues
 - Challenges:
 - High overhead (rent, utilities)
 - Limited hours of operation
 - Limited inventory
 - Physical labor costs for setup and staffing

Distribution Channels (cont.)

- Online Distribution Channels:
 - Advantages:
 - Global reach
 - 24/7 availability
 - Lower upfront costs compared to physical stores
- Omnichannel Distribution:
 - This strategy integrates social media, websites, and physical locations to create a seamless customer experience.
- Factors That Influence Distribution Choice:
 - Choosing a channel involves balancing the level of control over the brand against the costs and reach of the platform.

Establishing an Online Distribution Channel

- A website acts as a 24/7 salesperson and expands a business's physical location.
- Key benefits:
 - Credibility: A website establishes a professional image and staying power.
 - Search visibility: A website allows the business to be found through Google searches.
 - Brand control: Owners can design the site to reflect their specific brand identity and message.
 - Free advertising: Using search engine optimization (SEO) words helps customers find solutions that lead them to the business.

Establishing an Online Distribution Channel (cont.)

- Marketplace Sales:
 - Examples: Amazon, Etsy, and eBay
 - Pros: This type of distribution provides access to widespread global audiences and built-in transaction/security management.
 - Cons: The fees are higher (retailers often pay selling fees, referral fees for connecting buyers, shipping fees, and storage fees), and the business owner has less control over brand messaging or product display.

Sales

- Common sales channels:
 - Direct sales
 - Retail
 - Wholesale
 - E-commerce
 - Marketplace
 - Social media sales
- The Sales Process:



Sales (cont.)

- Lead Generation:
 - Inbound selling involves attracting customers through social media content, reviews, and helpful demonstrations.
 - Outbound selling involves direct outreach through phone calls, presentations, or contacting local groups.

Sales (cont.)

- Common Sales Methods:
 - Value-Based Selling:
 - Emphasizing how essential the product is for customer's needs
 - Example: Used when selling anti-aging beauty products
 - Consultative Selling:
 - Guiding customers through high-value purchases like appliances or cars
 - Solution-Based Selling:
 - Identifying the customer's "pain points" and then focusing on how the product addresses them
 - Technical Selling:
 - Providing in-depth technical knowledge and explaining why specific features are important to the user
 - Conceptual Selling:
 - Explaining how a service solves long-term problems
 - Example: Used when selling tutoring for future college success

CHAPTER SUMMARY

- Supply chains are intricate global networks connecting raw materials to the final customer through suppliers, manufacturers, and distributors.
- Horizontal and vertical integration are strategies used to gain control over costs, quality, and market share.
- Successful production balances technical knowledge with physical materials while maintaining high ROI and quality control.
- Distribution channels must be chosen strategically, and businesses should weigh the visibility of brick-and-mortar stores against the reach and flexibility of online platforms.
- Online marketplaces and professional websites are essential tools for growth, providing credibility and 24/7 access to customers.
- Effective sales strategies (inbound, outbound, or technical) are determined by the complexity of the product and the preferences of the target market.