

SAVVY ENTREPRENEURSHIP

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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

Case Study: Willa Finds a New Supplier



Cone Crazy's sales are at its peak, and Willa is out of her soft-serve ice cream mix. Her supplier can't restock for weeks, so Willa finds another supplier. The new mix needs refrigeration, but it's available now. Her customers may even prefer it.

Is it worth switching suppliers? Perhaps at least for now.

Supply Chains

- Sophisticated networks of activities to move product from creation to customer
- Elements in a supply chain:
 - Supplier: Role depends on where in chain; supplies raw materials to manufacturer and wholesales product to retailer
 - Manufacturer: Creates product from initial raw materials
 - Distributor: Moves product from one area in the chain to another
 - Customer: Consumes (purchases) product

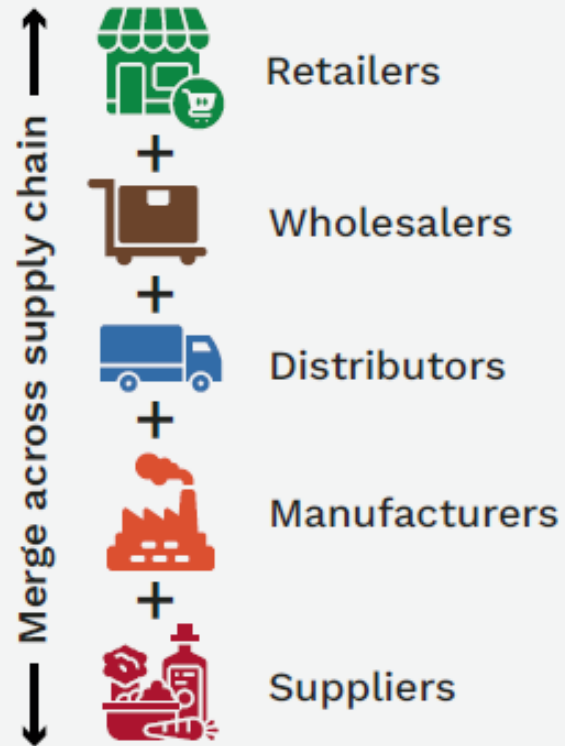
THE BASIC ELEMENTS OF A SUPPLY CHAIN



Strengthening Your Supply Chain

- Horizontal integration
 - Businesses at the same level merge to form one enterprise.
 - Example: Exxon Mobil drills, refines, manufactures and distributes petroleum products.
- Vertical integration
 - Several businesses add value to the product (manufacturing, packaging, distributing, retailing) as it reaches end customers.
 - Example: A local grocery store receives products from several suppliers and distributes them to shelves in its various grocery locations.

Vertical Integration



Horizontal Integration



Distribution Channels

PROS AND CONS OF BRICK-AND-MORTAR DISTRIBUTION CHANNELS



- ✓ Greater sales potential
- ✓ Close customer relations
- ✓ Fewer shipping issues
- ✓ More control over sales pitch

PROS



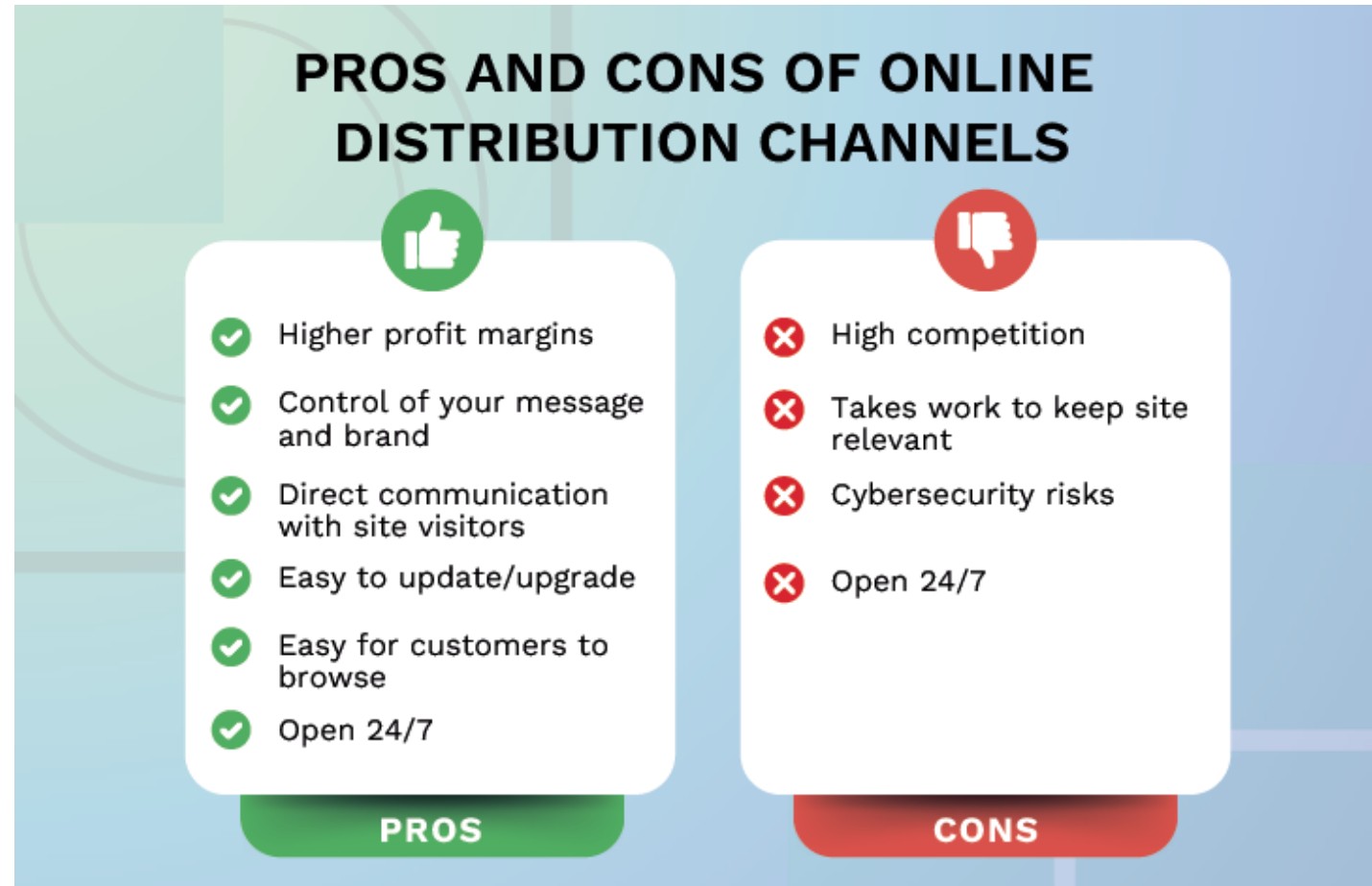
- ✗ High overhead costs
- ✗ Limited hours of operation
- ✗ Limited visibility
- ✗ Limited inventory

CONS

Listen to the discussion:



Distribution Channels (cont.)



Listen to the discussion:



Establishing an Online Distribution Channel

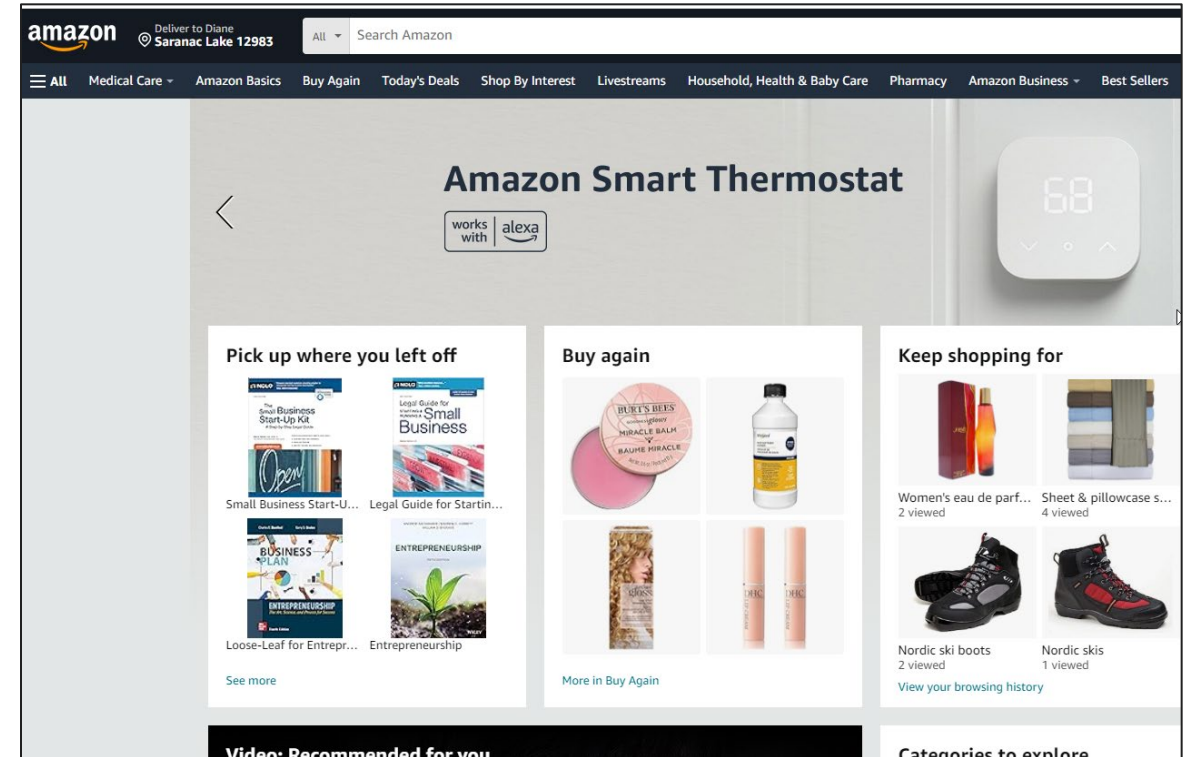
There's value in having an online presence even with a physical store.

- Expands the business's physical location
- Creates credibility
- Makes the business visible through Google search
- Empowers branding
- Serves as free advertising
- Current marketplace IS digital

Establishing an Online Distribution Channel (cont.)

Marketplace sales:

- Common sites: Amazon, Etsy, eBay, Alibaba and Facebook Marketplace
- Ease of product display
- Large consumer reach
- Flexibility in services
 - Advertising
 - Shipping
 - Displaying



Establishing an Online Distribution Channel (cont.)

Associated costs:

- Selling fees
 - A percentage usually goes to the site.
- Shipping fees
 - Who pays is negotiable (your business, the consumer).
- Inventory storage fees
 - These apply if the marketplace stores product but allows for faster delivery to the consumer.
- Service fees
 - These are the cost of returns, missing barcodes and lost shipments.

CHAPTER SUMMARY

- A supply chain is the full route a product makes from creation to end user and includes suppliers, manufacturers, distributors and the end consumer.
- Horizontal integration is the ability to own the competition for your product; vertical integration is owning the elements in the supply chain.
- The advantages of having a brick-and-mortar shop include greater sales potential and closer customer relations; on the other hand, overhead costs are high, visibility is limited and the hours of operation are more limited.
- Pros associated with online distribution sites include higher profit margins, brand messaging control and 24/7 availability; cons include high competition, cybersecurity risks, and (again) 24/7 availability!
- Marketplace distribution sites can be convenient for the business owner, but fees are involved; the savvy entrepreneur weighs their options carefully.