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Small Business Distribution and Location

Source: Entrepreneurial Small Business, Katz & Green, 2e
McGraw-Hill/Irwin

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Distribution

- **Distribution:** process of getting your product to your customers
 - “Where are my customers?”
 - “Where should I be?”
- **Direct marketing:**
 - Can be simple and inexpensive
 - Much more control over where your product or service goes
 - Many forms

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Typical Distribution Channels

Manufacturer	→ Wholesaler	→ Retailer	→ Consumer
Manufacturer		→ Retailer	→ Consumer
Manufacturer	→ Agent	→ Wholesaler	→ Retailer
Manufacturer		→ Wholesaler	→ Industrial Buyer
Manufacturer	→ Agent	→ Wholesaler	→ Industrial Buyer
Manufacturer	→ Agent		→ Consumer
Manufacturer			→ Industrial Buyer

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- **Word-of-mouth**
- **Direct sales:** primary way of selling to businesses
 - Salesperson contacts businesses likely to use your product or service and arranges to meet with the decision maker
 - Local fair, cultural event, flea market, craft fair
 - Vending machines

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- **Direct mail:** easy for part-time entrepreneurs
 - Can take **many forms:** postcards, catalogs, videos, brochures, leaflets, CD-ROMs
 - Getting the addresses is a major hurdle
 - PCS Mailing List Company (www.pcsl.com)
 - Focus USA (www.focus-usa-1.com)
 - Practical Marketing (www.practicalmarketing.net)
 - Google Directory (www.google.com/dirhp)

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- **Telemarketing:** telephone calls from salespeople
 - Most expensive form of direct marketing
 - Many states have adopted “do-not-call” lists
 - **Inbound telemarketing:** customer calls the manufacturer or service provider

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- **Direct response advertising:** you place an ad somewhere
 - Wait for the orders to come in

TABLE 11.1 Cost per 1,000 for Various Forms of Direct Response Advertising⁷

Media	Billboard	Transit Shelter	Radio—30-Second Spot	Magazine Newsweekly, 4-Color Page	Newspaper Daily, 1/3 Black and White Page	Television, 30-Second Prime-Time Spot
Men 18+	\$2.61	\$2.07	\$6.75-\$10.45	\$10.30	\$22.95	\$22.55-\$30.80
Women 18+	\$3.28	\$2.60	\$7.75-\$9.65	\$10.30	\$21.15	\$18.10-\$24.31

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- **Guerilla marketing:** unusual and nearly free advertising
 - Placing flyers under windshield wipers of cars
 - Waving signs at passing customers
 - Business cards on bulletin boards
 - Key is to catch the customer's attention

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- **Multichannel marketing:** using several outlets for contacting your customers
 - Phone number
 - Web site
 - E-mail address
 - Direct mail

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- **Internet:** very cost-effective and efficient way to contact your customers
 - Small businesses need to have a Web site regardless of whether or not they use it for actual sales
 - **Multichannel marketing**
 - Web site listed on your business cards

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- **eBay:** the megamall of e-mails
 - Strongly suggest using the auction feature
 - 12 million items available daily
 - 2 million new postings a day
 - 150 new items for sale listed every minute
 - 69 million eBay users
 - Spend \$59 million a day

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- **Tips for selling on eBay:**
 - Use detailed descriptions
 - A picture is worth a thousand words
 - Watch out for misspellings and typos
 - Be honest and factual
 - Respond as soon as possible
 - Be honest and up-front about shipping
 - Customer service is very important

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- **Other Internet options:**
 - Amazon.com (www.amazon.com)
 - Variety of selling options
 - Elance (www.elanceonline.com)
 - Offers service providers the opportunity to bid on potential projects

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- **Other Internet options: cont.**
 - Contracted Work (www.contractedwork.com)
 - www.freelancersdirect.com
 - Business-to-business e-mails:
 - Business.com (www.business.com)

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- **Distribution issues for direct marketing:**
 - You'll need to know where to go to find the information
 - The amount the seller pays
 - Fulfillment center (www.clearcommerce.com/eguide)
- **Nondirect distribution:**
 - **Middlemen:** provide the service of getting the product to the end consumer
 - Functions such as inventory control, advertising, and promotion

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- **Nondirect distribution: cont.**
 - Many distributors and wholesalers are not interested in taking on a start-up product
 - Be able to prove that it sells well
 - Showing your product at **trade shows** and gaining sales and recognition
 - An **e-tailer** might be willing to take a chance

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- **International strategies:**
 - **Born international:** new firm that opens a Web site immediately, thus being exposed to customers around the world
 - **Exporting:** three questions
 - Are we ready?
 - Where should we go?
 - Whom do we contact over there?
 - “A Basic Guide to Exporting”
 - <http://www.unzco.com/guide.html>

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- **Direct Exporting:** exporting using no middlemen
- **Indirect Exporting:** exporting using middlemen such as agents, export management companies, or export trading companies
- **Freight Forwarders:** firms specializing in arranging international shipments – packaging, transportation, and paperwork

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- Exporting: cont.
 - Are you ready to export?
 - Are you going to target one country, a region or the whole world
 - Do you know what customers want
 - Do you know what the import requirements are
 - Are you ready for the costs and headaches of exporting

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- Exporting: cont.
 - Where should we go?
 - United Nations has 191 member countries
 - Pick one or two as first markets
 - Safest bets: Canada, United Kingdom, Australia

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- Exporting: cont.
 - Whom do we contact over there?
 - Government services you have already used can provide lists of potential middlemen or end users
 - U.S. Commercial Services (www.export.gov)
 - BuyUSA.com through U.S. Dept. of Commerce
 - Participate in trade shows and trade missions

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- **Exports: cont.**
 - Next step is to export
 - Pricing becomes complicated: need to cover transportation
 - Shipping documentation and other paperwork are very specific to the product and the country
 - Variety of payment procedures available
 - Financing and insurance become important

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Example

How to Start an Import/Export Business

- Big guys make up only about 4 percent of all exporters and the other 96 percent of exporters are small outfits like yours
- Trade channel - the means by which the merchandise travels from manufacturer to end user
- Types of Import/Export businesses
 - Export management company
 - Export trading company
 - Import/export merchant

<http://www.entrepreneur.com/startup/business/businessideas/startupkit/article11846.html>

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- **Importing:** similar to exporting, but buyers and sellers are reversed
 - **Travel abroad;** look for products that are selling well in the country you're visiting
 - **Trade mission** and domestic and international trade shows are also good sources
 - Many of the paperwork and insurance details will be your **source's responsibility**

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- **Location**
 - First choice for many entrepreneurs is their **hometown**
 - Local banker knows you, more likely to loan money
 - You understand market's needs and wants
 - Friends and family are usually first customers
 - Reasons to consider a **different** location
 - Business laws in area (zoning laws)
 - Certain types of businesses may be banned

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- **Service firms:**
 - **Three types of locations:**
 - At the client's location
 - At a mutually accessible location
 - At your firm's location
 - **Marketing niches** have been carved out:
 - Dry cleaning and restaurant dining are services provided at a place accessible to both parties

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- **At the client's location:**
 - Services include such things as house or office cleaning, pest control, remodeling, lawn and gardening services, carpet cleaning, and similar services which must be performed at the client's house
 - As the firm grows, it may outgrow its home-based headquarters

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- **Mutually accessible location:**
 - Too much specialized equipment to be readily transported
 - A need for at least some client involvement
 - Barbershops, dentist offices, video rental stores restaurants

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- **Remote locations:**
 - Face-to-face meetings with the clients are infrequent
 - Medical transcription, data processing, fulfillment centers, and some consulting work
 - Ideal for home-based businesses

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- **Site selection:**
 - Once you have determined the general location of your business, you need to determine the exact location for your operation
 - **Three categories** to look for:
 - Home-based businesses
 - High customer contact
 - Low customer contact

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- **High customer contact business:**
 - Three critical site selection considerations:
 - Traffic
 - Customer ease
 - Competition
 - Presence of **traffic generators** in the area
 - **Parking** is also an issue

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- **Low customer contact business:**
 - Manufacturing business
 - Commercial space might be appropriate
 - Support businesses will be in or near the area
 - Business incubator: www.nbia.org
 - 850 business incubators in the United States sponsored by government, universities, or private investment groups
 - Require a stake in your company

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- **General comments on site selection:**
 - Looking for “for sale” and “for rent”
 - An experienced real estate broker will also be able to assist you in your search
 - Level with them about what you can spend

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- **Home-based businesses:**
 - Check with the city for zoning restrictions
 - Choose a work location inside your home that is away from distractions
 - You'll need a comfortable, usable desk, and adequate lighting
 - Tools typically include a telephone and high-capacity Internet service
 - Separate business line with an answering machine

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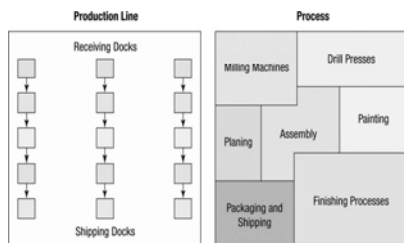
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- **Layout:** particular to the type of business you are in
 - Layout of a potential site must be considered carefully
 - Consider the amenities that are already there
 - Check the exterior

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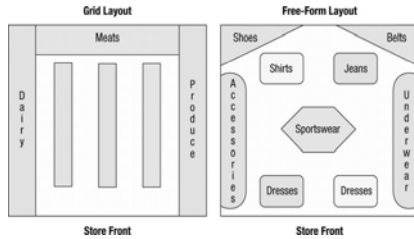
Typical Manufacturing Layout



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Typical Retail Layouts



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- **Build, buy, or lease:** three choices available to the business
 - Buying something already in existence shortens the time and may be somewhat cheaper
 - Renting is an option with a considerably lower initial cash outlay
 - Often the only feasible choice
 - Rent expenses are deductible

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Example

Relocate Your Business

- Buying requires more upfront capital investment, but provides security and the opportunity for capital appreciation
- Costs less to get into leased space--and it's easier to get out, too--but monthly payments may be higher
- Consider a lease with an option to own

<http://www.entrepreneur.com/nowyourbusiness/howto/ides/article11406.html>

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Summary

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