The Wheel of Consumer Analysis: Channel Strategy Issues

Introduction

- From an economic perspective, channels of distribution are thought of as providing
  - Form utility
  - Time utility
  - Place utility
  - Possession utility
Store-Related Affect and Cognition

- Two major variables of managerial concern at the retail level
  - Store image
  - Store Atmosphere

Store Image

- What consumers think about a particular store
  - Includes perceptions and attitudes based on sensations of store-related stimuli received through the five senses
  - Store image research involves polling consumers concerning their perceptions of and attitudes about particular store dimensions
  - Developing a consistent store image is a common goal of retailers

Store Atmosphere

- Donovan and Rossiter argue
  - Store atmosphere involves primarily affect in the form of in-store emotional states that consumers may not be fully conscious of when shopping
  - Approach and avoidance behaviors
    - Physical
    - Exploratory
    - Communication
    - Performance and satisfaction
Store Atmosphere cont.

– Investigated relationships between three types of emotional states and stated intentions to perform certain store-related behaviors
  • Pleasure
  • Arousal
  • Dominance
– Pleasure and arousal were found to influence consumers’ stated
  • Enjoyment of shopping in the store
  • Time spent browsing and exploring the store’s offerings

Store Atmosphere cont.

• Willingness to talk to sales personnel
• Tendency to spend more money than originally planned
• Likelihood of returning to the store
– Dominance was found to have little effect on consumer behaviors in the retail environment

A Model of Store Atmosphere Effects
### Store-Related Behavior

- Marketing managers aim to encourage many behaviors in the retail store environment
  - Store contact
  - Store loyalty

### Store Contact

- Involves the consumer locating, traveling to, and entering a store
  - A number of variables are concerned with obtaining store contacts

### Store Loyalty

- Repeat patronage intentions and behavior
  - Strongly influenced by the arrangement of the environment, particularly the reinforcing properties of the retail store
  - Store loyalty is a major objective of retail channel strategy and has an important financial impact
### Store Environment

- Three major decision areas in designing effective store environments
  - Store location
  - Store layout
  - In-store stimuli

### Store Location

- A critical aspect of channel strategy
  - Research on retail location has been dominated by a regional urban economics approach rather than a behavioral approach
  - Even slight differences in location can have a significant impact on market share and profitability
  - Store location decisions represent long-term financial commitments, and changing poor locations can be difficult and costly

### Store Location cont.

- General approaches to store location
  - Checklist
    - attempts to systematically evaluate the relative value of a site compared to other potential sites in the area
  - Analog
    - identifies an existing store or stores similar to the one to be located
  - Regression models
    - commonly used to investigate the factors that affect the profitability of retail outlets at particular sites
  - Location allocation models
    - involves the simultaneous selection of several locations and estimation of demand at those locations to optimize some specified criteria
Store Layout

- Can have important effects on consumers
  - Grid layout
    • The grid layout is more likely to be used in department and specialty stores to direct customer traffic down the main aisles
  - Free-form layout
    • This arrangement is particularly useful for encouraging relaxed shopping and impulse purchases

Example of a Grid Store Layout

Example of Free-Form Store Layout
Advantages and Disadvantages of Grid and Free Form

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Grid</strong></td>
<td></td>
</tr>
<tr>
<td>Low cost</td>
<td>Plain and uninteresting</td>
</tr>
<tr>
<td>Customer familiarity</td>
<td>Limited browsing</td>
</tr>
<tr>
<td>Merchandise exposure</td>
<td>Stimulator of rushed shopping behavior</td>
</tr>
<tr>
<td>Ease of cleaning</td>
<td>Limited creativity in décor</td>
</tr>
<tr>
<td>Simplified security</td>
<td></td>
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<tr>
<td>Possibility of self-service</td>
<td></td>
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<tr>
<td><strong>Free-Form</strong></td>
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<tr>
<td>Allowance for browsing and wandering freely</td>
<td>Loitering encouraged</td>
</tr>
<tr>
<td>Visual appeal</td>
<td>Possible confusion</td>
</tr>
<tr>
<td>Flexibility</td>
<td>Waste of floor space</td>
</tr>
<tr>
<td></td>
<td>Cost</td>
</tr>
<tr>
<td></td>
<td>Difficulty of cleaning</td>
</tr>
</tbody>
</table>

In-Store Stimuli

- Signs and price information
  - Benefit sign
  - Price-only sign
- Color
  - Warm colors
  - Cool colors
- Shelf space and displays

In-Store Stimuli cont.

- Music
  - Affects
    - pace of in-store traffic flow of supermarket shoppers
    - daily gross volume of customer purchases
    - number of shoppers expressing awareness of background music after leaving the store
  - Tempo of background music influences consumer behavior
- Scent
  - Ambient scent
Nonstore Consumer Behavior

- Consumer purchase mode
  - The method a consumer uses to shop and purchase from store or nonstore alternatives
  - Choices made among the various consumer purchase modes are influenced by many factors

Annual Purchases from Nonstore Modes

Catalog and Direct Mail Purchases

- Have grown dramatically with the increase in dual-income families and the general need for consumers to save time
  - Catalogs have some disadvantages for consumers
    - Product price higher and shipping charges
    - Inability to experience the feel, fit, or other sensory stimuli of a product directly
    - Waiting time to receive merchandise
    - Product return
Vending Machine Purchases
- Sales have experienced little growth in recent years
  - Merchandise selling for more than a dollar has not sold well
  - Provide merchandise in convenient locations and often available for purchases twenty-four hours a day
  - Prices are typically higher
  - Recovery of money may not be possible if product is not delivered

Television Home Shopping
- Includes cable channels dedicated to shopping, infomercials, and direct-response advertising
  - TV shopping channel network accessible to 60 million Americans, but only viewed by about 20 percent
  - Must be watching the channel when the merchandise is offered
  - Must pay shipping charges
  - Less informative than experiencing products directly in stores

Direct Sales Purchases
- Face-to-face or telephone transaction
  - Salespeople can provide in-depth product usage information
  - Merchandise is often higher priced than similar merchandise in stores
  - Must spend time watching the demonstration and discussing products
  - Pressure by overzealous salespeople to purchase unneeded products
Electronic Exchanges

• Involve consumers in collecting information, shopping, and purchasing from Web sites
  – Fastest growing purchase mode

A Comparison of Consumer Purchase Modes

• Stores
  – Dominate consumer purchases as they offer the deepest and widest product assortment
  – Offer the greatest potential for fun and status

• Catalogs
  – Offer the convenience of shopping from home or work
  – Offer some products and brands not available in stores
  – Many products are not available in catalogs

A Comparison of Consumer Purchase Modes cont.

• Vending machines
  – Highly limited in the products offered but provide consumers with time and place utility for convenience goods

• Direct sales
  – Offer only a limited number of products, although some are highly respected
  – Often require a good deal of consumers’ time
  – Goods of similar quality are available at lower prices from stores
Consumer Strategies for Electronic and Store Exchanges cont.
- TV home shopping and electronic exchanges
  - Will likely increase as these modes become more interactive

Electronic Commerce
- The process by which buyers and sellers conduct exchanges of information, money, and merchandise by electronic means, primarily on the Internet
- Electronic commerce often requires consumers to seek out marketers by going to particular Web sites
- Consumers commonly collect information but do not actually buy anything

Consumer Strategies for Electronic and Store Exchanges
- Both electronic exchanges and traditional stores for shopping and purchasing used
  - Could both shop and purchase electronically, making a pure electronic exchange
  - Could use the store-aided electronic exchange
  - Could collect information online and then go to a brick-and-mortar store or dealer to make a purchase
  - Could shop and purchase in stores without using the Internet at all
Electronic Exchanges from the Consumer Side

- Although electronic exchanges have been growing, they still remain a small part of consumer purchasing
- Consumer uncertainty about product quality and the inability to experience products prior to purchasing and receiving them is a concern

Electronic Exchanges from the Consumer Side cont.

- The amount of information available on the Internet and the time and effort necessary to access it is a problem
- Not clear whether consumers get the lowest prices by shopping on the Web when shipping costs and return costs are considered

The Future of Consumer Electronic Exchanges

- Will continue to grow rapidly
  - Limiting factors for consumer electronic purchases from equaling or overtaking traditional brick-and-mortar stores
    - Many consumers do not have access to computers
    - Many consumers are not savvy enough to perform electronic exchanges effectively
    - Many e-marketers do not make enough profit to reinvest in growing consumer markets
The Future of Consumer Electronic Exchanges cont.

- Making electronic exchange requires consumers to change long-standing ways of buying
- Many consumer products do not fit an electronic exchange format
- Many consumers trust brick-and-mortar stores that they have shopped and purchased in for many years

Channel Strategy

- Marketing managers have many decisions to make in designing effective channels to serve consumers
- Different members of a distribution channel may be primarily concerned with influencing different consumer behaviors
- The starting point for designing effective channels is an analysis of consumer-product relationships

Channel Design Criteria
Commodity

- The nature of the product or service offered to the consumer
  - Key consumer-related questions in considering the nature of the product or service
  - The relationships among consumers, the commodity, and the channel that are critical rather than analysis of these factors in isolation.

Conditions

- The current state of and expected changes in the economic, social, political, and legal environments in which the firm operates
  - Because channels typically involve long-term commitments by a firm that may be difficult to change condition information is critical in channel design

Competition

- The size, financial and marketing strengths, and market share of a firm’s competitors are major concerns in designing effective marketing strategies
  - A key issue concerns how major competitors distribute products and how their distribution system influences consumers
Costs

- A basic goal is to design a distribution system that facilitates exchanges between the firm and consumers, but does so in a cost-efficient manner.

Coverage

- Two separate meanings in channel strategy
  - Idea that seldom can every member of a selected target market receive sufficient marketing coverage to bring about an exchange
  - Coverage refers to the number of outlets in a particular geographic area in which the product or service will be sold.

Competence

- Frequently overlooked criterion in designing channels
  - Is the firm’s competence to administer the channels
  - To perform channel tasks at all levels to ensure effective distribution to the consumer.
Control

- Important managerial criterion in designing channels is the degree of control desired for effective marketing of the product to the consumer
  - In general, there is greater control in direct channels because no intermediaries are involved

Characteristics of Intermediaries

- If no acceptable intermediaries are available then the firm must either market directly, encourage the development of intermediaries, or forgo entering a particular market
  - Consumer perceptions of intermediaries can be crucial in channel strategy

Summary

- Presented an overview of consumer behavior and channel strategy
- Identified the two most critical store-related affect and cognitions for channel strategy
- Discussed store-related behaviors
- Examined the store environment
Summary cont.

• Discussed a variety of consumer purchase modes, with an emphasis on nonstore modes
• Described electronic commerce evaluation from a consumer point of view
• Emphasized that it is the consumer and their relationships with other criteria that determine appropriate channel strategy