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# UNIT 16 DISTRIBUTION STRATEGIES

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## 16.0 OBJECTIVES

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After studying this Unit, **you** will be able to learn:

- the definitions of distribution channels,
- about the distribution strategy and distribution channels,
- about the role of intermediaries in tourism industry, and
- how to select an effective channel of distribution.

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## 16.1 INTRODUCTION

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Along with product, price and promotion, distribution (place) is a major component in the Marketing Mix. Tourism product has certain special characteristics and because of its nature, it requires channels to reach the customer. Distribution system provides the channel or means by which tourism supplier gains access to the potential customers of the product. In this Unit, we have explained the importance of the distribution system in tourism marketing. How to decide a distribution strategy and distribution channels and the importance of intermediaries in marketing tourism products are the other issues dealt with in the Unit.

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## 16.2 DEFINING DISTRIBUTION

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Distribution of product or service is a mix of processes and organisations which make the product or services available to the end user. It is the flow of goods/services from producer to consumer. In fact these attributes have contributed towards the development of specific distribution forms for the tourism products and services. Chris Cooper et al have listed certain crucial aspects of tourism distribution:

- "There is no actual product which is being distributed. There are only clues given through persuasive communication about the product."
- The distribution method, "method of selling and the environment within which the purchase is made becomes part of the tourism experience."
- Travel agents dominate the distribution system by making their own decisions regarding what to display and recommend to the customers: and producers play the key role in persuasive communication as far as the distribution channels and direct delivery to the customers is concerned.

There are also different types of distribution needs. For example in museums and monuments no prior bookings are required but queuing is used as an allocation method for the available supply. On the other hand, in the case of trains or airlines etc., because of excess demand or to ensure that one gets a seat, bookings are done in advance. The advance distribution process

can be anything from 2 hours to 2 years or even more depending on the nature of the service product. Distribution flow is facilitated and regulated by intermediaries or middlemen, commonly termed as the channel of distribution. As back as 1966, Bucklin had defined distribution channel as a "a set of institutions **which** performs all **of the** activities (functions) utilised to move a product and its title from production to **consumption**." **Over** the years the producers of services felt the need to overcome the problem of making their services available and accessible to their target markets. Victor T C Middleton has pointed out that 'the inability in travel and tourism to create physical stocks of products, adds to rather than reduces the importance of the distribution process. In marketing practice, creating and manipulating access for consumers **is** one of the principal **ways** to manage demand for highly perishable **products**." **Hence**, in relation to travel and tourism Middleton provides a definition according to which :

"**A distribution** channel **is** any organised and serviced system, created or utilised to provide convenient points of sale **and/or** access to consumers, away from the location of production and consumption and paid for out of **marketing** budgets."

Further elaborating on this definition he stressed that:

- channels are carefully planned and serviced by producers and not left to chance,
- each channel, once organised and serviced becomes a pipeline for the flow of sales to the targeted market.

We are aware that the tourism product or service is either rented out, consumed or experienced and there is no transfer of ownership.

These distribution channel members perform various functions like procurement, storage, delivery, service, financing and counseling. The goods are physically moved from producer to consumer via channel members. However, service distribution markedly differs from goods distribution. **In fact** services unlike goods do not move to consumers. It is the consumers whose movements are facilitated towards services through the intermediaries. There is no physical movement and no transfer of ownership in distribution of services. The body of **knowledge** available today relating to distribution is physical goods oriented, and the same cannot be applied to services. Intangibility, inseparability and perishability of services make it an all together different task of designing distribution strategies for services. You will find the following differentiation between distribution of goods and that of services useful.

#### Goods Distribution

Physical Movement of goods  
Ownership is transferred to channel members  
Profit through resell  
Product moves towards consumer  
Product manufacturing unit is also moved closer to market

#### Services Distribution

No physical movement of services  
Ownership remains with supplier of services  
Commission through sales  
Consumer moves towards services  
**Service** supplier provides services closer to market

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## 16.3 DISTRIBUTION STRATEGY

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A marketing manager has two options for distribution of the services product. Directly reaching customer and reaching customer through the middlemen. Hence the decision relating to distribution mix is to decide whether to go for Direct Marketing or for Indirect Marketing or both.

Indirect Marketing will be a good strategy if the following conditions exist:

- Number of buyers is large,
- **Frequency** of purchase is high,
- Volume per purchase is small,

- Market is decentralised,
- Financial position of **manufacturer** is not strong,
- When **manufacture** would like to share risk, and
- When business is to be expanded.

The **Indirect Marketing Strategy** involves use of intermediaries. They help in making the product **available** to consumer through the process of sharing risk and providing financial and information support. For example airlines use indirect marketing through GSA (General Sales Agent), ABA (Authorised Book Agents) and travel agents. According to Philip Kotler:

**'The case for using middlemen would rest on their supplier efficiency in the performance of basic marketing tasks and functions. Marketing intermediaries, through their experience, specialisation, contacts and scale offer the producing organisation more than it can usually achieve on its own.'**

**Direct Marketing** involves directly contacting the customers.

## 16.4 DISTRIBUTION CHANNELS

Distribution channels are of different types and an organisation may adopt anyone type of, a **combination** of or all the types of the distribution channels. All this depends on the type of service being provided **by the** organisation. In this Section we **familiarise** you with the various levels of the distribution channels.

- i) **Single level Channel** : Here the service is directly distributed to the consumers. For example Airlines directly booking the tickets for the customers or hotels directly booking rooms for guests.
- ii) **One Ltvel Channel** : It implies a single level where only one type or category of middleman is used. Service industry is predominantly using this kind of **channel**. For example, airlines use trawl **agents/ticketing** agents for booking seats for air trawl. Their is only one intermediary between the service supplier and the service user.

The following diagram gives the various options for using one lewl channel :



- iii) **Two Level Channel** : In this case the distribution of services is through two intermediaries. For example, in the airlines, GSA and, travel agents form two **levels** of distribution channel.
- iv) **Multi Level Channels** : Many times more than two categories of intermediaries are simultaneously used in service industry and this is particularly the case in tourism and trawl industry. For example, lodging or attractions or carriers may sell their services to incentive trawl planner, in turn, these incentive trawl planners sell the services to conwntion meeting planner or corporate travel manager. Similarly, the wholesale tour planner sells their services to travel agents and tour operators.

<b>Check Your Progress-1</b>
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1) What do you understand by distribution ?

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2) Explain indirect and **direct marketing**.

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3) List some channels that can be used in tourism **marketing**.

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## 5      **INTERMEDIARIES IN TRAVEL AND TOURISM** **INDUSTRY**

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Marketing channel members are the resources for the organisation. They provide important services in terms of financial support, information and promotion. Following are the main **functions** of channel members:

- Information
- Promotion
- Selling
- Financing
- Risk taking

Intermediaries increase the selling capacity of the organisation by providing selling services at places close to the customers. This also increases the geographical **coverage of the** market. Different intermediaries can cover various segments of the market. For example, services of the carrier can be sold to outbound tour market segment through tour operators, individual travellers through travel agents and business travel, segment through convention meeting planners and travel agents. The middleman also helps in minimising the cost of incidental

services for procuring the core service. The various types of intermediaries in tourism industry are as follows:

- a) Travel Agents are one of the most important intermediaries in travel and tour industry. As per research findings, travel agents account for 75% of domestic air travel and 90% of international air travel, 95% of international tour packages, 80% of international hotel booking and 30% of domestic tour booking.

These travel agents are the middlemen for carriers, hotels, tour wholesalers and conference and convention planners. No charges are usually levied on the customers. Their income accrues **from** the commission **from** airlines and hotels. Commission is around 10% of the service cost. There are two types of travel agents : Implant and Independent. Implant is a retail travel agency office that is located on the premises of the corporate client. There are travel agents who specialize in package tours and railway bookings. Rebating is paying back part **of the** commission to the customer. This practice is however not desirable.

- b) Tour Wholesalers : Tour wholesaler is the organisation which plans, prepares, markets and administers vacation and travel packages. **These** packages are usually a combination of the services of various suppliers like carriers, hotels, guides, catering, local transportation etc.
- c) Tour Operators : Tour Operator **is** a person or Organisation which operates package tours prepared by tour wholesalers. Sometimes tour operators themselves provide necessary ground services like local transport, guides and escorts. Ground operators are those who provide services at destinations. Tour wholesalers and tour operators are terms which can be used interchangeably.

Tour planning begins about two years prior to the start of a tour. Tour plan is based on market research. When tour plan is being prepared the tour planners begin to negotiate with hotels, carriers, caterers etc. for prices and bookings, etc. These **negotiations** thus form the basis of costing and pricing the tour. The brochures are printed and distributed to tour operators and travel agents. Tours can be planned on a partnership **basis** with carriers, hotels, tourism promotion boards etc.

- d) Corporate Travel Managers : These are in-house travel departments of large corporations. Corporate Travel Department provides various benefits to the organisation. The benefits which accrue to the organisation are as follows :
- Reduces business cost,
  - Enhanced services are provided,
  - Increases purchasing **power** through bulk buying, and
  - Maintains the level of quality of travel.

Corporate Travel Department as a concept should become more popular **with** the advent **of CRS-Computer Reservation System** and Interactive Computer Software. There are software package available through which the customers can directly **interact** with the computer and can get information related to attractions, accommodations, fares, routes, time-tables, cost, duration of travel etc. so as to decide the individual travel plan. They can also make bookings for airline and hotels etc. directly without the help of an intermediary.

- e) Incentive Travel Planner : **Often**, potential travellers become confirmed ones, **if they** are offered some concessions. For example, in India many government organisations or private institutions offer Leave Travel Concession, (LTC) to their **employees**. This concession makes the **employee** travel. For this kind of travellers there are special agents known as Incentive Travel Planners. These are specialised tour operators, who deal with corporate clients and individual travellers. ITDC is an example of an organisation which **offers** this type of service.
- f) Consortium : Many organisation distribute their services by integrating with other **organisations**. Consortium is the practice of offering similar service by a group of suppliers. For example, the preferred Hotels World - Wide is an organisation with a group **of more** than hundred hotels. The hotel booking can be done in any **of their** hotels

from any individual hotel. In India, the **Ashoka** Group of Hotels has gone into affiliation with Trust, House Forte, Golden Tulip and Doner Hotel for a similar kind of consortium.

- g) **Franchising** : It is a hybrid form of **entrepreneurship**. A parent company customarily grants an individual or a company the right or privilege to do business by using its name and by following a set pattern of operation over a certain period of time, in a specified space.

There are a number of benefits to the **franchisee** as he gets proven products or brands and assistance in management of the business. He is not required to develop a new product or its image. At the same time, the **franchisee** has to maintain certain standards and quality that go with the brand name.

The benefits to Franchisers include a royalty to the tune of ten to twelve percent of the gross sales. Also there is a sharing of investment and management responsibility on the part of **the franchisers** as it is their brand image that will be at stake.

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## 16.6 SELECTION OF CHANNELS AND INTERMEDIARIES

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Channel decision involves long-term commitment and cost for the principal suppliers. In this regard the time and costs are highest as compared to any other marketing decision, Thus what should be the level of channel and also the type of intermediaries to be selected are very critical to the success of an enterprise. The following factors play **important** role in these decisions:

- Intensity of distribution desired,
- Access to end user,
- Prevailing distribution practices,
- Revenue : Cost Analysis,
- Time horizon required for development of channel,
- Degree of control desired,
- Availability of channel participants,
- Choosing the best intermediary,
- Capability of channel participants,
- Customer care provided by channel participant,
- Geographical coverage desired,
- Market standing of the channel participant, and
- Financial status of the channel participant, etc.

Various decisions regarding distribution like levels of channel, selection of channel members etc. can give results only when smooth and professional relations with intermediaries are developed and maintained. There is a strong interdependency between say **Airlines** and its intermediaries like GSA, Ticketing Agent and Tour Operators or Hotels and its intermediaries like travel agents, Corporate Meeting Planners etc. The roles and responsibilities should be clear and specific. These should be properly spelt out in order to avoid any chances of conflict among the organisation and its intermediaries. For example the percentage of commissions or royalties, mode of **payment**, credit facilities, credit time etc. are decided at the initial stages itself. It is also advisable to have **contracts/agreements** signed in this regard. In most **of the** cases, commissions and credit facilities etc. are decided on the basis of **volume** of business to be handled. The principal suppliers in order to **maximise** their gains through increase in business volume offer incentives and rebates to their distributors.

"The decision to use middlemen involves the organisation in a number of further decisions. The first is the problem of choosing the best middlemen from the large number **who** are available...But it might find that a desired distributor is not willing to accept the assignment. Or the distributor might handle the product only **if given** exclusive distribution. Or the distributor might handle **the** product only if it receives better financial terms than are being offered.— The organisation must follow this up by carefully establishing the terms and responsibilities of the distributors. This is called the trade-relations mix and consists of the price policies, conditions of sale, territorial rights and specific services to be performed by each party" Philip Kotler.

**Exclusive distribution** : Distribution rights given to only one intermediary for reaching the customers.

**Selective distribution** : Organisation uses a few from among the available intermediaries/distributors to reach the customers.

**Intensive distribution** : Organisation uses many intermediaries to reach the customers.

The concept of 'Relations Marketing' explains the need to have better relations with various groups related to functioning of an organisation. In tourism and **travel** industry there is pronounced need to establish, develop and maintain **successful** relational exchanges amongst the various players.

For positive relationship both the parties are required to have strong commitment and unquestionable trust. On this depends the **efficiency** adjustment and in cases even survival of the organisations. Constant motivation of intermediaries by the organisation is necessary in order to maintain their interest in the product. Regular contact, sales incentives, bonus, etc. are part of the motivation strategies.

Finally, an **organisation** must evaluate or assess the performance **of the** intermediaries. This **exercise** must be taken up at regular intervals. Every organisation must devise its own performance indicators for the distributors as per the organisation's plans and requirements. Performance evaluation also calls for certain strategic decisions like dropping those whose performance is below the expectations or motivating them **further** to pay more attention to their product or service. An **organisation** aspiring for success should also get constant feedback **from** the intermediaries regarding the market trends, customer requirements, competition, etc. along with the image feedback about the efficiency and quality of its own products and services.

**Check Your Progress-2**

1) What role intermediaries play in tourism marketing?

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2) List four factors which influence the selection of distribution channels.

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## 16.7 LET US SUM UP

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As in other sectors in travel and tourism also, distribution is an important element in the Marketing Mix. Distribution actually provides an access to customers and in the case of tourism product and services there are a number of intermediaries that constitute the distribution system. Organisation **planning** is required to select a proper channel for marketing of tourism products and services and certain decisions have to be undertaken in this regard. It is after evaluating the various available alternatives that an organisation develops its distribution strategy. The capabilities, **infrastructure**, access to market, volume of business etc. of the channel to be adopted are considered in this regard.

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## 16.8 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

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<b>Check Your Progress-1</b>
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- 1) See **Sec. 16.2.**
- 2) See **Sec. 16.3.**
- 3) See **Sec. 16.4.**

<b>Check Your Progress-2</b>
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- 1) See **Sec. 16.5.**
- 2) See **Sec. 16.6.**