

Gaining distribution in small retail formats bring big payoffs even for major brands

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Credit: Institute for Operations Research and the Management Sciences

Small formats with limited assortments like Save-A-Lot and Aldi and neighborhood stores like Target Express have been growing recently in popularity in the United States and around the world. For brands, the limited assortments mean greater competition for shelf-space, raising the question of whether it is worth expending marketing effort and slotting allowances to get on to their shelves. According to a forthcoming study in a leading INFORMS scholarly marketing journal, *Marketing Science*, the answer is "yes." Gaining the same increase in distribution penetration from limited assortment stores provide much larger increases in sales,

relative to that from large assortment stores.

The study "The Effect of Retail Distribution on Sales of Alcoholic Beverages" is co-authored by Richard Friberg and Mark Sanctuary of the Stockholm School of Economics. In general, answering the question of how much distribution affects sales is challenging, due to a "chicken and egg" problem. Sales increase with distribution, but firms also increase distribution when sales increase, making it hard to tease out the effect of distribution on sales from the effect of sales on distribution.

The authors examined SKU level sales data from Systembolaget, a Swedish state-owned monopoly for retailing [alcoholic beverages](#) such as wine, beer and other spirits from 2006-2011. The advantage of the Swedish data is that the monopoly has to follow a certain set of rules when changing distribution for brands. These rules were established to ensure fairness to wholesalers and to satisfy conditions for Sweden's accession to the European Union. The Swedish retailer classified stores into four tiers based on assortment levels. All brands chosen for distribution are initially sold at the largest format stores. As they become more popular, their likelihood of being sold in the next tier of smaller format stores rises. These distribution decisions are all made twice a year.

Friberg explained, "Given we knew the firm's rules and timing for distribution changes, we know which brands have similar chance of being chosen for distribution in the next tier at a given time. From among this set of similar brands, we compare the increase in sales for those who gained distribution to the next tier relative to those that did not. This allowed us to isolate the effect of distribution on sales, because the rule allowed us to eliminate the [effect](#) of sales on distribution."

The authors found that a 10 percent widening in the retail distribution of wines, for example, yields increases in sales by 1.2 percent, 2.1 percent

and 6.2 percent as the product gained distribution to the next tier of stores with smaller assortments. Sanctuary notes, "Our results suggests that gaining distribution in one large [store](#) with a certain turnover is less effective in increasing sales than gaining distribution at two small stores that have the same combined turnover as the larger store. Hence gaining distribution in small retail formats remains important for larger brands."

The authors dig deeper into why they find that the effects of increasing distribution to smaller format stores are greater. They rule out explanations such as greater word of mouth that arises from larger distribution and conclude that a [brand](#) gaining distribution in limited assortment stores can get a larger share of [sales](#) relative to shares at larger assortment stores. "Getting a larger share of a smaller pie at limited assortment stores is well worth fighting for," says Friberg, with clear implications for brands deciding to expend effort in gaining distribution at such stores that are growing around the world.

More information: Richard Friberg et al. The Effect of Retail Distribution on Sales of Alcoholic Beverages, *Marketing Science* (2017). [DOI: 10.1287/mksc.2017.1038](https://doi.org/10.1287/mksc.2017.1038)

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