

How Entrepreneurs Can Leverage Distribution to Unlock New Growth Opportunities

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For many new business owners, direct distribution may seem like the most cost-effective route to reach customers. Without any need for partnerships, third-party integrations or revenue splits, it has the lowest apparent cost. However, as businesses grow, a well-balanced mix of distribution channels becomes crucial to unlocking new growth opportunities. By strategically diversifying your distribution strategy, you can protect your brand, and build a more agile and resilient business model.

Despite their higher costs, distribution partners not only ease operational burden but can significantly broaden market reach thanks to their established networks. That is certainly the case in the hospitality sector, where distribution has always been critical. Since the products can't be moved, all of a hotel's inventory is filled by smart distribution.

Before the internet, the massive distribution power of hotel chains gave them a huge advantage over independent hotels. But since the early 2000s, hotels developed new ways to distribute through various online channels such as Expedia and Booking. In fact, 65% of all direct bookings now come from guests who first discover the property through an online travel agency (OTA).

Across industries, distribution partners routinely prove their worth, but they are not quite a turnkey solution. To craft an effective distribution strategy, it is important to look beyond where your competition is showing up. Let's explore how to diversify, innovate and potentially outperform them.

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Balancing direct and partner distribution

At its height in 2011, Toys "R" Us had revenue in excess of \$13.9 billion. Just seven years later, the brand had filed for bankruptcy and shuttered all its U.S. stores, though it has since begun a revival under new ownership. CEO David Brandon linked the closeout to the company's "inability to provide expedited shipping options" and a "lack of a subscription-based delivery service."

In other words, in a market dominated by online retailers like Amazon, their distribution strategy hadn't evolved. Similarly, the mega-chain Blockbuster was wiped out by Netflix, and RadioShack was taken out by its limited ecommerce strategy. No matter how big your brand gets, maintaining a diverse distribution mix is essential.

In practice, this means continuously monitoring the competition and proactively adapting to market changes. So, gather and analyze data from your distribution channels regularly. This will help you make quick, effective changes to optimize your sales and market position.

Additionally, while brands shouldn't rely on direct distribution alone, it is a crucial component of maintaining control over brand image, customer experience and pricing. Apple is an industry leader in this regard. While the company

has many retail partners, it also invests heavily in its own retail stores and online direct-to-consumer channels, allowing it to maintain its market dominance.

Finding innovative distribution channels

In a competitive marketplace, the path of least resistance is identifying and mirroring the bigger players' distribution channels. Ironically, this safety-first approach comes with risk. Instead of becoming commoditized, a better way may be to find niche markets. To do that, recognize that some channels have a stronger presence in certain markets than others. If you want to expand into a new region, for instance, identify channels that have access to demand in that particular area.

In our industry, some Asian countries have specific OTAs that are widely used, so listing on these platforms can then attract new customers. While investing in specialized segments might not offer the same visibility as mainstream markets, a properly targeted niche strategy can lead to greater conversions and higher profitability. Red Bull, for example, carved out a \$10 billion market in the energy drink industry by targeting extreme sports enthusiasts through special events and sponsorships.

Catering to unmet needs means you can become the “go-to” solution in a small yet profitable market. The caveat is this niche approach can take months or even years to develop. While it is still important to leverage major players, don't lose your unique value proposition in the process. The “be everywhere” strategy can work well if you are not trying to be everything to everyone.

Marriott exemplifies this balanced approach. While guests can book any of its branded hotels through the company's central booking system, Marriott uses both direct channels (website,

mobile apps) and indirect channels (OTAs, travel agents) to reach different market segments. This allows Marriott to cater to various traveler preferences, from business-focused brands like Courtyard by Marriott to leisure-oriented properties like Sheraton.

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Strategic expansion as things change

Markets will always fluctuate. But if you listen to what customers say about where they are shopping, you will learn about new trends and new places to put your products. If your distribution strategy is well-mixed and you are not overly dependent on any single channel, you will be well-positioned to leverage changes in your favor.

At least once a year, replace one or more of the channels generating the fewest sales to search for new customers. As a rule of thumb, when market demand drops, brands should increase the number of distribution options to cast. Conversely, when market demand is high, be more selective and focus on quality of audience, average prices, cost and ease of management. Successful brands often demonstrate this kind of adaptability.

Perhaps the biggest name in graphic design, Adobe, even pivoted its entire revenue model when faced with the software industry moving towards cloud-based solutions. Although Adobe's shift from licensing and upselling its creative suite of software to a SaaS model initially attracted criticism, it has proven a masterstroke – posting record revenue of \$19.41 billion in the 2023 financial year.

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Distributors

Premium brands like Apple and Marriott are able to gain increasing market share despite their higher price points by continuously enhancing visibility and boosting engagement. As you prepare your distribution strategy, find ways to build in flexibility. By establishing metrics early on and recognizing the need to evolve as market conditions change, you will be well-positioned to test emerging platforms, explore new niches and balance a strategy that is capable of driving both immediate revenue and long-term growth.

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