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Features of Developing Distribution Channels for Local Producers

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Abstract

This article examines the sustained growth in demand for products of local producers, driven by shifting consumer preferences towards transparency of origin and environmental sustainability. At the same time, the increasing concentration of the retail market and the tightening requirements for supplier integration into electronic document management systems create significant entry barriers for small enterprises. The relevance of this study is determined by the need to identify effective distribution channels that can neutralize these constraints and convert heightened interest into stable revenue growth. This work aims to develop a practical toolkit for selecting and configuring distribution channels in a manner that minimizes transaction and logistics costs, as well as the risks associated with non-compliance with regulatory requirements. Based on a systematic review of industry reports and academic research, a comparative analysis of transaction costs, and a content analysis of practical case studies, a methodological framework is proposed that includes target-audience segmentation, cost modeling, and the development of a structured channel matrix. The novelty of the research lies in the creation of a multidimensional distribution-channel matrix that combines four basic dimensions: type of buyer, decision-making context (offline/online), the price–quality–convenience trade-off, and the premium willingness for locality. The proposed tool enables the adaptive construction of direct, short chains and interaction with local retailers by synchronizing digital and offline touchpoints, as well as integrating a promotional calendar with an analytics system. Thus, the use of the developed approach demonstrates the ability to achieve an ideal balance between margin and sales volume, reduce costs for EDI and last-mile logistics, and enhance the strength of the channel strategy through orderly marketing and adherence to legal requirements. This paper will help business growth leaders and advisors in the gifts selling field.

Keywords: *Local Producers, Distribution Channels, Channel Matrix, EDI, Direct Sales, Retail Chains, Omnichannel, Transaction Costs.*

INTRODUCTION

Over the past five years, demand for products from local producers has grown faster than the overall market. The global toys and games market size is expected to reach USD 439.91 billion by 2030, growing at a CAGR of 4.3% from 2024 to 2030 [1]. Consumer surveys confirm that this is not a temporary spike in interest: 64% of respondents expect greater self-sufficiency in their communities and consciously seek the local origin of ingredients on packaging [2]. In the broader context of sustainable consumption, the average willingness to pay a premium is 9.7% above the base price [3], which indirectly strengthens the value proposition of local brands associated with short logistics and transparent production practices.

Simultaneously, structural competition intensifies: over 60% of retail product categories are already controlled by a limited number of federal chains that possess the market power to dictate terms to suppliers [4]. As a result, local producers face a paradox: demand for their products objectively grows, yet access to profitable distribution channels narrows, since entry barriers—from the necessity of EDI-compatible systems to retroactive bonuses—rise in proportion to the size of the network operators.

The present study aims to resolve this paradox. The objective is to develop practical recommendations for selecting and configuring distribution channels that convert growing demand into sustainable revenue growth, rather than dissipating it in logistics, marketing, and compliance costs associated with network regulations. To this end, the following sections analyze target-audience parameters, channel typology, and performance metrics, enabling local producers to minimize transaction costs and strengthen competitive positions without relinquishing regional identity.

MATERIALS AND METHODOLOGY

The investigation into features for constructing distribution

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channels for local producers is based on an analysis of 16 key sources, including industry reports, academic research, statistical data, and practical case studies. Reports from Grand View Research [1] and Innova Market Insights [2], as well as PwC survey results on willingness to pay a sustainability premium [3], were used to determine demand dynamics and volume. The structure of the retail market was analyzed based on reviews by [4, 5]. At the same time, online-trade trends were examined through studies by Adams [6], Aull [7], and Bigora [12]. Consumer preferences and experiments with the concept of local were studied in the works of Khanal [9], Legowski et al. [10]. Logistics and technological aspects of the channel strategy were investigated using Frederick's data on delivery costs [13], Data Interchange's estimates of EDI implementation costs [14], and Metastat Insight's forecast for the EDI market in Europe [11].

The methodological framework of the study consists of four main steps. First, a systematic review of both literature and industry reports helped in drawing up the major parameters of the distribution-channel matrix, through which to scope target audience segmentation and decision-making contexts, along with price, quality, and convenience criteria, as well as willingness-to-pay thresholds. Second, comparative channel-efficiency metrics included the calculation of transaction, logistics, and operational costs from last-mile and EDI-system data. Third, content analysis of real-life examples helped identify best practices for producers when dealing with consumers and retail partners. Lastly, quantitative modeling of the effects of EDI implementation alongside regulatory requirements on costs, as well as supply risks, helped develop a structured channel matrix considering four basic dimensions for use in practice during the selection of an optimal configuration for distribution routes.

RESULTS AND DISCUSSION

Market segmentation indicates that households continue to be the primary target of local producers. For a complete picture, industrial B2B demand must also be taken into account. However, its share of sales typically fluctuates depending on product specialization, which determines the first column of the forthcoming channel matrix.

The U.S. personalized gifts market is forecast to grow from USD 9.69 billion in 2024 to USD 14.56 billion by 2030 at a steady 7.03 % CAGR—robust and persistent consumer demand, as shown in the Figure 1 [5]. It is fueled by the further evolution of print-on-demand technology and easy-to-use online systems that make customization simpler, and general cultural trends towards meaningful, unique gifts. An ever-widening product portfolio—from bespoke ceramics and engraved jewelry to digital animated keepsakes—combined with rising disposable incomes, is creating fertile ground for market expansion. Over the forecast period, these trends are likely to spur the emergence of new niche offerings and intensify competition among both established and emerging players.

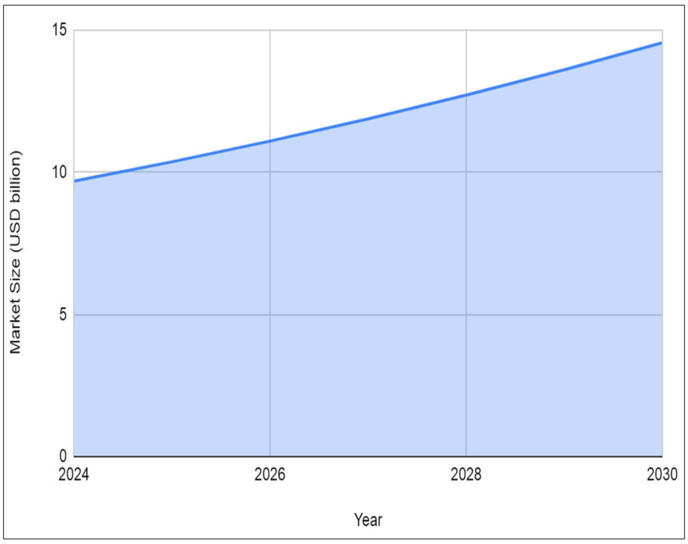

Fig. 1. The U.S. Personalized Gifts Market Size [5]

The place where the buyer makes a decision is evolving rapidly: 69% of respondents in an international study [6] already conduct at least part of their routine shopping online, with nearly half placing online orders for one-quarter to one-half of their basket; nevertheless, the share of e-commerce in monetary terms remains modest—in May 2023 it accounted for only 7.2% of all expenditures in North America, indirectly confirming the persistent dominance of the physical shelf and the role of the moment of choice directly in the store [7], as shown in Figure 2.

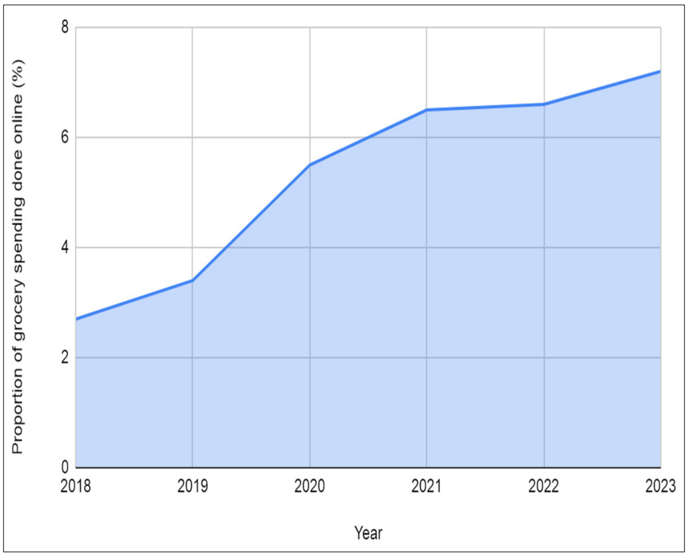

Fig. 2. Temporal Evolution of the Online Share of Expenditure Before, During, and After the COVID-19 Pandemic [7]

Hence, the second column of the matrix: the local producer must synchronize offline and digital touchpoints, assuming that the final decision is still often made at the classic shelf. At the same time, information search and comparisons increasingly occur online.

The weight of price, quality, and convenience criteria is unevenly distributed. Yet, the trend is unequivocal: more than 70% of participants in a global McKinsey survey rate price and organoleptic quality as very important, and convenience (including delivery speed and order-management capability) becomes the principal motivator for switching to online channels [8]. At the same time, two-thirds of buyers in 2023 consciously sought cheaper alternatives to familiar brands, confirming tight budget constraints and the need for precise positioning of local products within the acceptable value premium segment [7]. Thus, the third column of the matrix is formed: the price-to-unique freshness-to-convenience ratio sets the optimal cost level for each channel.

Willingness to pay for local origin varies most widely. PwC estimates the global average premium for sustainably produced goods at 9.7% above the base price, which defines the upper boundary for regional-origin marketing [3]. However, a large field experiment involving 1,050 consumers did not reveal a statistically significant increase in willingness-to-pay for products merely labeled as local if other attributes did not exceed expectations [9]. These figures form the fourth column of the matrix, defining the permissible range of pricing strategies and the size of the potential channel discount window.

Thus, responses to the four fundamental questions are assembled into a matrix in which the horizontal axis represents target buyer segments and the vertical axis represents decision-making context (online / offline), value-criteria system, and willingness-to-pay threshold. Each cell of the matrix specifies a concrete channel configuration: for example, for price-sensitive households making offline decisions, cooperation with a discount chain is optimal, whereas informational promotion is conducted primarily through digital reviews and local social media. Conversely, a client for whom quality and delivery reliability outweigh price will be served by direct B2B deliveries, accompanied by contractual discounts and a service-level agreement (SLA). The matrix thus becomes a navigational tool that the local producer can return to when selecting new channels or reviewing existing ones as demand and competitive pressures evolve.

Following the logic of the target-channel matrix, at the second level of detail, only two mechanisms remain for delivering the product to the consumer: direct sales and reliance on local retail networks or cooperatives. The first option enhances the producer's control over price and communication, while the second provides access to traffic and infrastructure without a drastic increase in the producer's costs.

Direct sales encompass the entire spectrum of short chains—from crafters' markets and CSA subscriptions to crafter shop formats and digital click-and-collect platforms. For a producer, a direct channel implies retaining the majority of the final price while concurrently assuming responsibility for last-mile logistics, marketing, and inventory management. The shorter the chain, the greater the sensitivity to one's own time.

Local retail chains and cooperatives establish an alternative connection to the shelf, balancing store infrastructure, regional logistics centers, and a stable customer base against requirements for volume, delivery consistency, and batch presentation. For reference, in the EU, supermarkets, hypermarkets, and discounters account for 54% of total product turnover, with sales concentration in individual countries reaching up to 80% [10]. Nevertheless, the cooperative format is uniquely capable of integrating a local producer into this ecosystem without loss of identity.

For a small producer, collaboration with a chain or cooperative simultaneously addresses three key objectives: guaranteed purchase volume, reduced transaction costs, and access to marketing slots that are unavailable when operating alone. The entry ticket requirements include quality standards, standardized packaging, electronic document interchange, and often deferred payment under contract. Net margin is lower than with direct sales, but turnover and stability are higher; by skillfully balancing the two channels, one reaches the point at which network-generated volume covers the enterprise's fixed costs, while direct sales remain a field for innovation, assortment testing, and a price premium reflecting the provenance narrative.

The starting point of any sustainable channel strategy is a clear prioritization of those segments where demand can be converted into margin most rapidly. The matrix assembled in the previous section provides a set of hypotheses. Still, final weightings are determined by the scale and flexibility of the audience: today, over 90% of consumers purchase both offline and online, and the e-commerce market share is expected to grow from USD 276 billion in 2024 to USD 388 billion by 2027 [12]. This indicates that segmentation by behavioural model (channel, purchase occasion, time sensitivity) is more crucial than classical demographic division; it is this segmentation that reveals where a local brand can sustain a premium markup and where it must compete solely on cost.

The next step is to map the financial channels. For each distribution option, capital and operating expenses are calculated with real bottlenecks in mind. Last-mile delivery can account for up to 53% of total logistics costs when the route involves small assortments and tight delivery windows, making it the primary cost driver in direct-sales or marketplace models [13]. At the same time, electronic document interchange saves on routine operations: one invoice processed via EDI costs on average £2.70 compared to £24 for manual handling, yielding an eight-fold cost reduction. Yet 41% of companies still operate entirely without EDI, making such an upgrade a comparatively inexpensive way to free up resources for marketing [14].

Legal readiness encompasses mandatory costs that are often omitted from business plans. Working with most retail chains requires a connection to an EDI platform, and the European market for such solutions already exceeds USD 1.3 billion. It is growing at a rate of 9% per annum, underscoring the inevitability of the standard [11], as shown in Fig. 3.

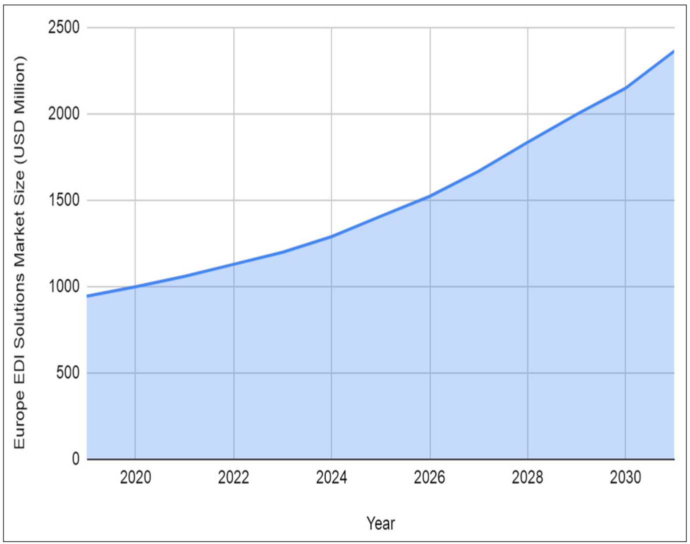

Fig. 3. Historical and Forecasted Market Size of Europe's Electronic Data Interchange Solutions [11]

However, cost savings only make sense when backed by market demand. To avoid diluting resources, a local brand needs a clear promotional calendar that synchronizes offline activities (tastings, regional shelf displays) with digital triggers on marketplaces and social media, and tracks the results of each campaign through a robust analytics system. In this way, each marketing euro operates as an investment rather than an expense.

The final component of the strategy is omnichannel integration. When the consumer seamlessly moves between digital screens and physical stores, the manufacturer's task is to render the product recognizable at all points of contact and ensure a seamless transition from awareness to purchase. Instrumentally, this is achieved through the synchronization of product listings, a unified inventory system, and end-to-end loyalty tracking; economically, it involves segmenting the product portfolio: basic volumes are channeled through a B2B distributor to ensure stable capacity utilization, whereas innovative SKUs are launched via a marketplace and the proprietary e-shop, where the provenance narrative is monetized as a premium. Such a hybrid configuration closes the iterative loop: segmentation, cost calculation, compliance, logistics, marketing, and the digital showcase form a single feedback loop, transforming regional production from an incidental commodity into a systematic business.

Local brands incur their first significant losses when attempting to enter the market with an extensive product line from the outset. An excessive assortment complicates certification processes, stretches the marketing budget, and hinders the development of a hero product around which brand identity and repeat demand are constructed. The second common miscalculation relates to underestimating the operational regulations of retail chains. Such sanctions rapidly turn even a profitable transaction into an unprofitable one, and the accrual of penalties can result in shelf suspension for months.

Dumping price reductions may appear to be an easy way to capture market share, but they undermine the locality premium. The consumer begins to perceive the brand as yet another low-cost option, and any subsequent price increase triggers a shift toward the retail chain's private labels, whose costs are inherently lower.

Equally dangerous is the abandonment of systematic channel marketing. In the absence of a promotional calendar and the synchronization of online and offline activities, the product becomes lost in the general information noise: the consumer remains unaware of its advantages, and the retailer sees no justification for allocating shelf space. As a result, a product with potential remains non-rotational, which intensifies price pressure and restricts entry into new channels.

All the aforementioned errors share a single unifying factor—defocusing. The earlier the manufacturer reduces the assortment to validated items, fulfills the technical requirements of the channels, maintains a justified pricing policy, and ties marketing support to specific points of sale, the greater the likelihood that local provenance will become a sustainable competitive advantage rather than a one-off marketing effect.

Thus, the sequential application of the proposed channel matrix—taking into account segmentation by customer types and decision-making contexts, as well as balancing price/quality/convenience and the permissible locality premium—enables the local producer not only to calibrate the sales structure precisely but also to optimize costs associated with logistics, compliance, and marketing. Two complementary pathways remain critical: direct short chains for preserving margin and experimenting with assortment, and collaboration with retail chains and cooperatives for stable volumes and access to infrastructure. The integration of digital and offline touchpoints, a systematic promotional calendar, and clear prioritization of validated items allows local provenance to be transformed from a one-time marketing impact into a sustainable competitive advantage.

CONCLUSION

The study demonstrates that the successful establishment of distribution paths for local makers is achievable through the precise alignment of need and cost factors. The use of a chart that links buyer types and choice settings enables the transition from rising interest in local origin to lasting revenue growth. This setup enables the adjustment of pricing plans based on the readiness to pay more for value, balancing cost, quality, and delivery ease, as well as tailoring promotions across online and offline channels to the behavioral traits of the target group.

Further detailing of the matrix at the level of direct and indirect sales underscores the role of short chains and partnerships with local retailers. For producers, direct channels provide the maximum margin and control over communication; however, they require substantial last-mile logistics and marketing expenditures. Conversely, partnerships with chains and cooperatives reduce transactional costs and grant access to existing infrastructure, but impose requirements regarding volume, packaging standards, and electronic document exchange. The optimal strategy combines both approaches: direct sales are used for innovative SKUs and testing new items, while stable volumes through chains cover the fixed operational expenses of the operation.

A key condition for sustainable growth is the integration of digital and offline touchpoints, synchronization of the promotional calendar, and continuous performance monitoring. Through a unified product listing system, end-to-end inventory tracking, and analytics of marketing campaign results, distribution channels can be adapted in real time, minimizing the risk of defocusing. Special attention must be paid to technical and legal requirements, including the implementation of EDI, compliance with safety standards, and optimization of logistics through hub + cross-dock models. This can significantly reduce operational expenses and prevent penalties for non-compliance with retail chain regulations.

Thus, the sequential application of the developed approach—from segmentation and cost calculation to compliance readiness and marketing coordination—transforms channel strategy from a set of disparate actions into a systematic process. Local product provenance serves not only as a one-time marketing tactic but also as a sustainable competitive advantage, capable of delivering both margin and long-term revenue growth.

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