

Marketing Channels and Supply Chain Management



Chapter 12

Issues Concerning Distribution Channels

What is the Nature
Of Distribution
Channels?

What Problems do
Companies Face in
Designing and
Managing Their
Channels?

How do Channel
Firms Interact and
Organize to do the
Work of the
Channel?

Value Delivery Network

- ❑ The network made-up of the company, suppliers, distributors and ultimately customers who “partner” with each other to improve the performance of the entire system in delivering customer value.
- ❑ *Upstream partners*: set of firms that supply stuffs needed to create a product or service.
- ❑ *Down stream partners*: firms that help producers to deliver products to the customers.

Marketing/Distribution Channel:

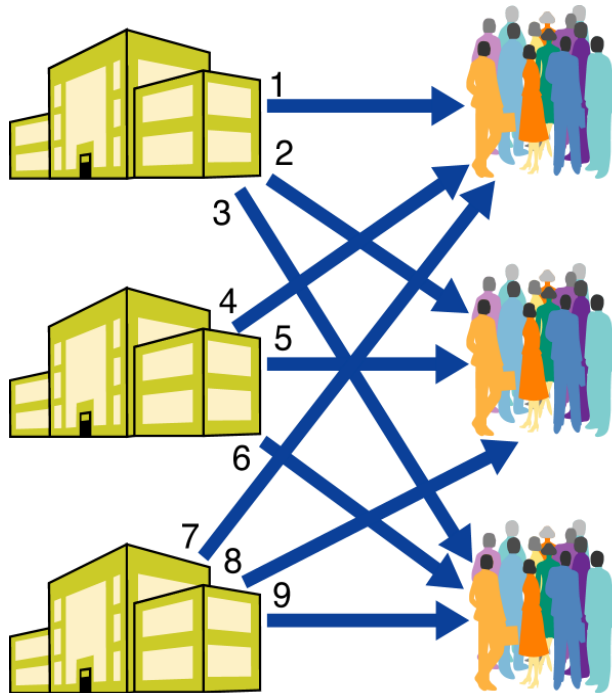
- ❑ A set of interdependent organizations (intermediaries) involved in the process of making a product or service available for use or consumption by the consumer or business user.
- ❑ A strong distribution system can be a competitive advantage.
- ❑ Channel decisions involve long-term commitments to other firms.

Nature & Importance of Marketing Channels

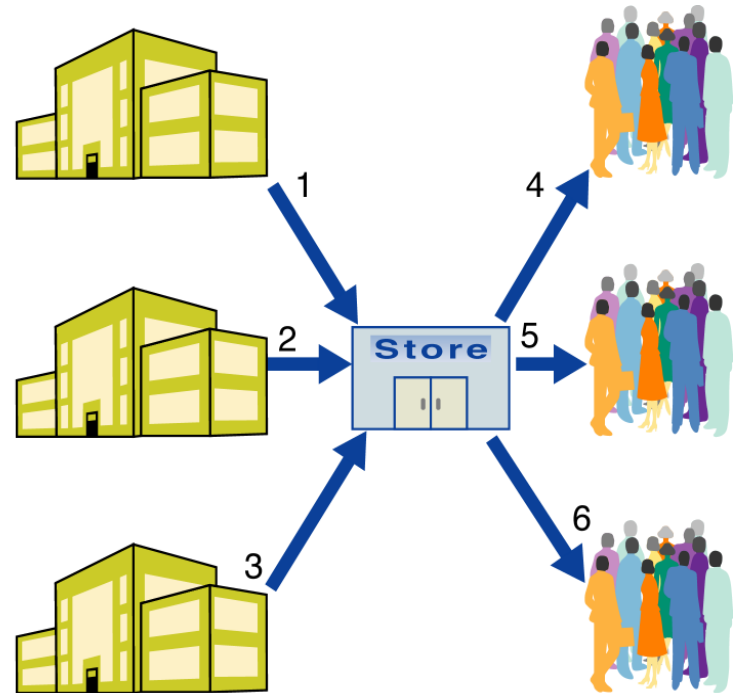
□ How Channel Members Add Value

- Intermediaries require fewer contacts to move the product to the final purchaser.
- Intermediaries help match product assortment demand with supply.
- Intermediaries help bridge major time, place, and possession gaps that separate products from those who would use them.

How a Marketing Intermediary Reduces the Number of Channel Transactions



A. Number of contacts without a distributor
 $M \times C = 3 \times 3 = 9$



B. Number of contacts with a distributor
 $M + C = 3 + 3 = 6$



= Manufacturer



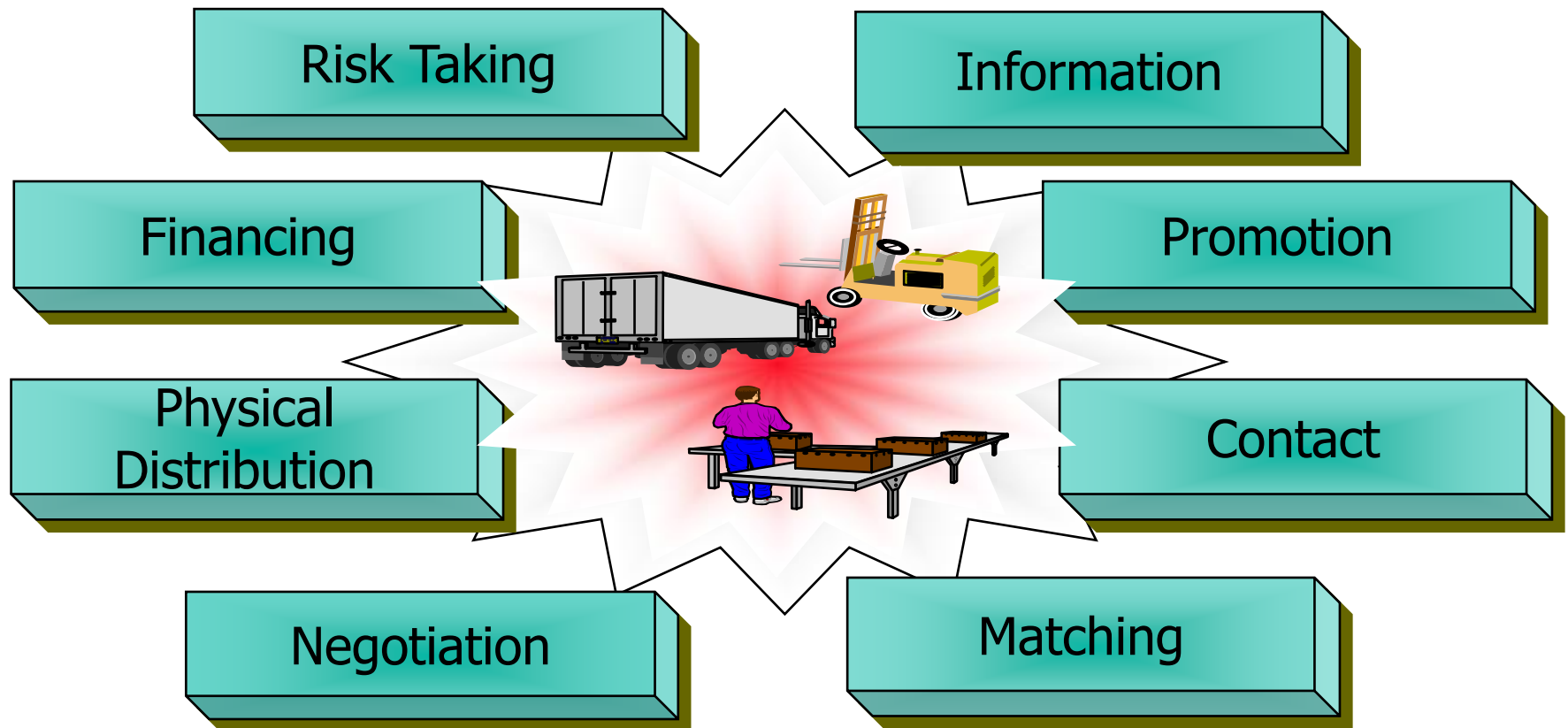
= Customer



= Distributor

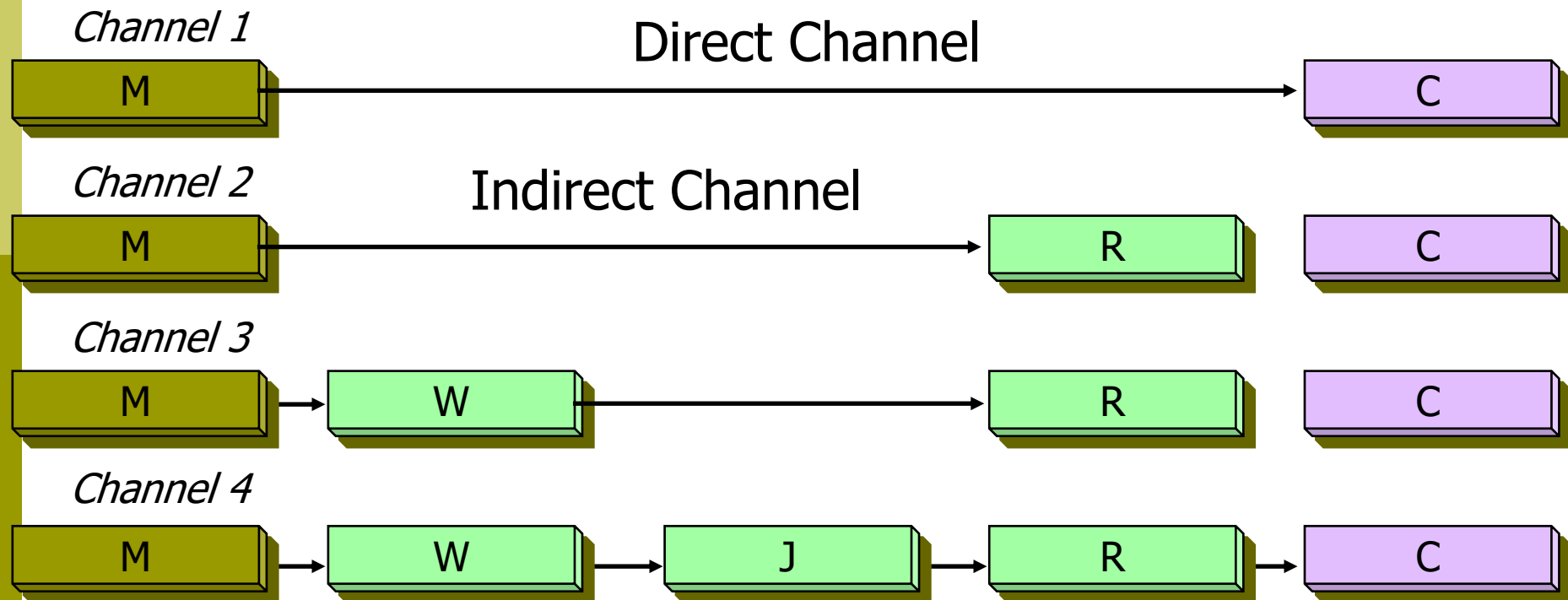
Distribution Channel Functions

Functions Should be Assigned to the Channel Member Who Can Perform Most Efficiently and Effectively to Provide Satisfactory Assortments of Goods and Services to Target Customers.



Number of Channel Levels

Channel Level - Each Layer of Marketing Intermediaries that Perform Some Work in Bringing the Product and its Ownership Closer to the Final Buyer.



Channel Behavior and Organization

❑ Channel Conflict

- Occurs when channel members disagree on roles, activities, or rewards. Who should do what and for what rewards?

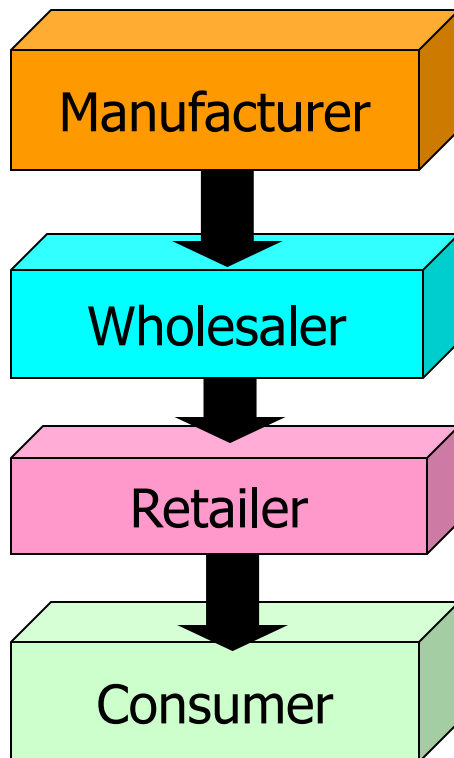
- Types of Conflict:

- ❑ **Horizontal conflict:** occurs among firms at the same channel level e.g. Dealers' conflict, or retailer to retailer
- ❑ **Vertical conflict:** occurs among firms at different channel levels e.g. Conflict between parent company and re-sellers.

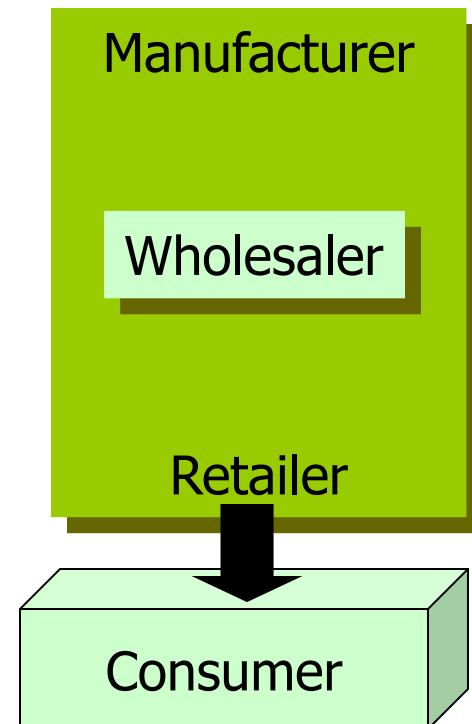
- ❑ For the channel to perform well, each channel member's role must be specified and conflict must be managed.

Conventional Marketing Channel Vs. a Vertical Marketing System

Conventional Marketing Channel



Vertical Marketing System



Conventional Vs Vertical Marketing System:

❑ Conventional System:

- A channel consisting of one or more independent producers, wholesalers, retailers, each a separate business seeking to maximize its own profits, even at the expense of profits for the system as a whole.

❑ Vertical System (VMS):

- A channel structure where producers, wholesalers and retailers act as a unified system.
- One channel member owns the others, has contracts with them or has so much power that they all cooperate.

Vertical Marketing System (VMS):

❑ Corporate VMS

- Combines successive stages of production and distribution under single ownership.
- Leadership is established through common ownership.
- Forward integration Vs Backward integration.

❑ Contractual VMS

- Independent firms at different levels of production and distribution join together through contracts.

❑ Administered VMS

- Coordinates successive stages of production and distribution through the size and power of one of the parties.

Other systems:

- ❑ Horizontal Marketing System
 - A channel arrangement in which two or more companies at one level join together to follow a new marketing opportunity.
- ❑ Multichannel Distribution System
- ❑ Disintermediation

Channel Design Decisions

Analyzing Consumer Service Needs

Setting Channel Objectives & Constraints

Identifying Major Alternatives

Intensive
Distribution

Selective
Distribution

Exclusive
Distribution

Evaluating the Major Alternatives

Channel Design Decisions

- ❑ *Step 1: Analyzing Consumer Needs*
 - Cost and feasibility of meeting needs must be considered
 - ❑ Do consumers want to buy from nearby locations?
 - ❑ Do they want add-on services?
 - ❑ Would they buy in person or over phone or via the Internet?

Channel Design Decisions

□ *Step 2: Setting Channel Objectives*

- Set channel objectives in terms of targeted level of customer service
- Many factors influence channel objectives
 - Nature of the company: size and financial situation
 - Its products: perishable or durable
 - Its competitors: avoid channels used by competitors.
E.g. Avon
 - Economic conditions: depressed economy

Channel Design Decisions

- *Step 3: Identifying Major Alternatives*
 - Types of intermediaries
 - Company sales force, distributors, wholesalers, retailers
 - Number of marketing intermediaries
 - Intensive, selective, and exclusive distribution
 - Responsibilities of channel members: Agree on price policies, territorial rights, and specific services to be performed by each party.

Number of marketing intermediaries

□ Intensive

- Stocking the product in as many outlets as possible
- Used for Convenience Goods



Even found one in a boat floating down a deserted section of the Nile River, says one Globe and Mail reporter

□ Selective

- Using more than one but fewer than all of the intermediaries who are willing to carry the company's products
- Used for Shopping Goods



In some selected places. We may not find a GE appliance in a small department store

□ Exclusive

- Giving a limited number of dealers the exclusive right to distribute the company's products in their territories
- Used for Specialty Goods



We can't buy a Rolls Royce or a Ferrari just from anywhere

Channel Design Decisions

- ❑ *Step 4: Evaluating Major Alternatives*
 - Economic criteria: compare the likely sales, costs and profitability of different channel alternatives.
 - Control issues: how much control to be given over the marketing of the product.
 - Adaptive criteria: flexibility of channel members to adapt with environmental changes.

Channel Management Decisions

