

Marketing Channel Strategy

The term marketing channel was first used to describe the existence of a trade channel bridging producers and users. Early writers compared marketing channel to paths through which goods or materials could move from producer to users.

A marketing channel, or channel of distribution, is the set of instructions involved in the exchange of products from producers to users.

What is a marketing channel?

A marketing channel consists of individuals and firms involved in the process of making a product or service available for consumption or use by consumers and industrial users.

Channel Flows

A marketing channel can be compared to a pipeline that guides the movement of entire marketing programs among channel members.

Types of flows through the channel:

- Physical flow
- Ownership flow
- Information flow
- Payment flow
- Promotion flow

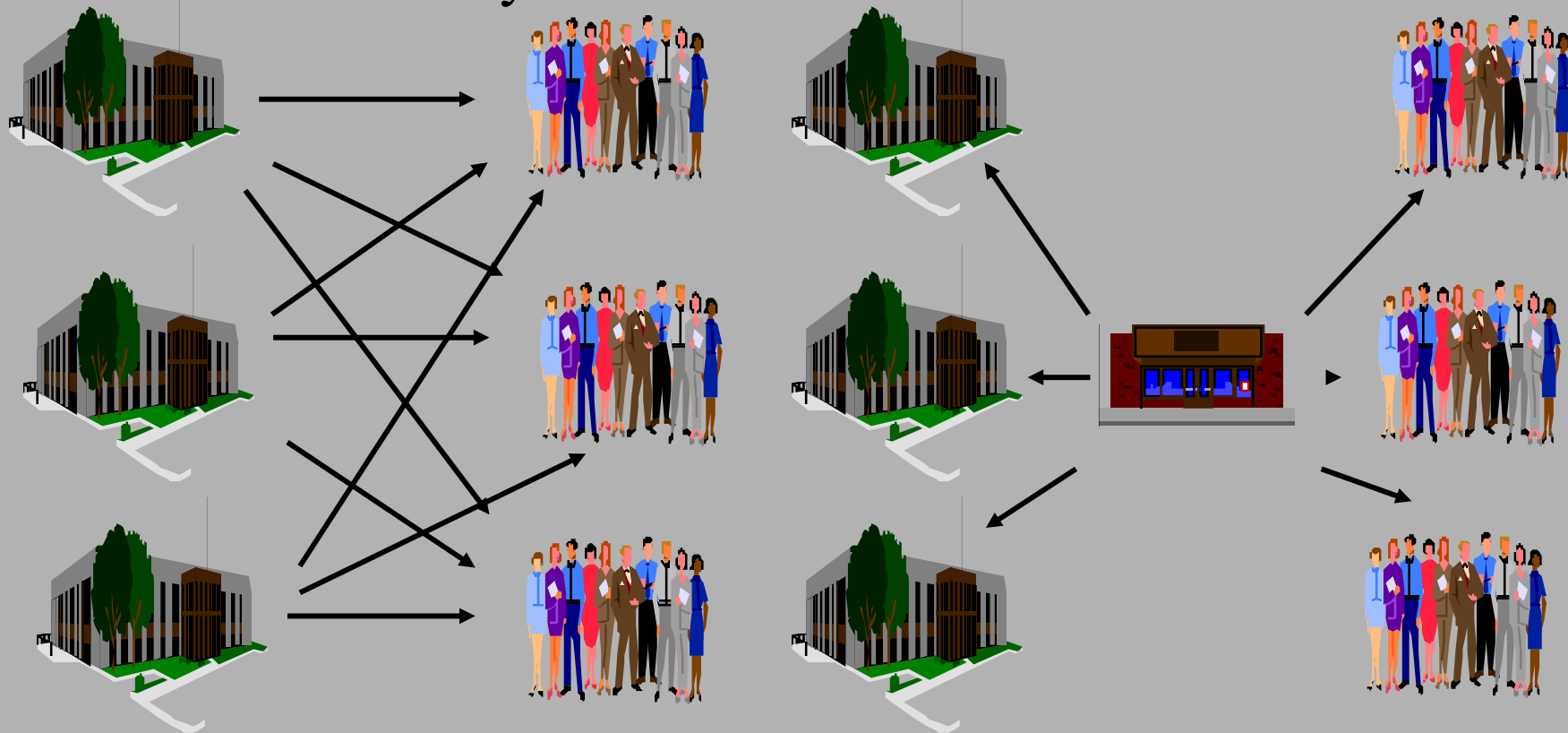
Nature of Distribution Channels: Why Use Marketing Intermediaries?

- Create greater efficiencies
- Transform producers product assortment into assortment wanted by consumers
- Match supply with demand
- Services and ideas must be available to target market



Why Use Marketing Intermediaries?

An intermediary reduces the number of channel transactions



Number of contacts without a distributor

$$M \times C = 3 \times 3 = 9$$

Number of contacts with a distributor

$$M \times C = 3 + 3 = 6$$

Role of the channel in marketing strategy

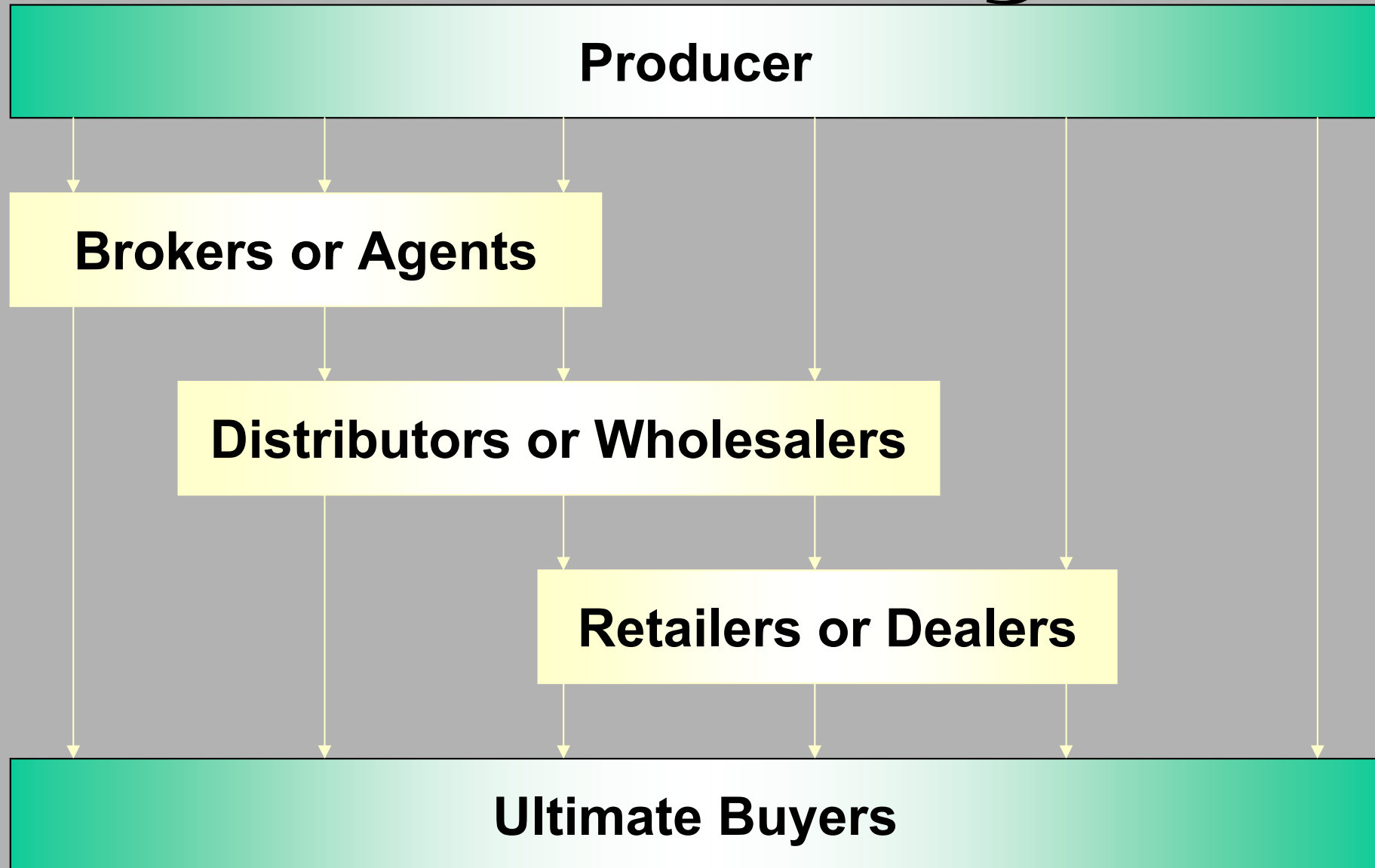
- Links a producer to buyers
- Performs sales, advertising, and promotion
- Influences the firm's pricing strategy
- Affects product strategy through branding policies, willingness to stock and customize offerings, install, maintain, offer credit, etc.

Distribution Channel Functions

- Information
- Promotion
- Contact
- Matching
- Negotiation
- Physical distribution
- Financing
- Risk taking



Traditional Marketing Channel Designs



The Design of Marketing Channels

INDIRECT DIST.

Use intermediaries to reach target market

- type
- location
- density
- number of channel levels

vs.

DIRECT DIST.

Contact ultimate buyers directly

- using its own sales force or distribution outlets
- using the Internet through a marketing Web site or electronic storefront

The Design of Marketing Channels

Direct distribution is typically used when:

- Buyers are easily identifiable
- Personal selling is a major component of the communication mix
- Organization has a wide variety of offerings for the target market
- Sufficient resources are available

The Design of Marketing Channels

Direct distribution must be considered when:

- Intermediaries are not available for reaching target markets
- Intermediaries do not possess the capacity to service the requirements of target markets

The Design of Marketing Channels

Indirect distribution must be considered when:

- Intermediaries can perform distribution functions more efficiently and less expensively
- Customers are hard to reach directly
- Organization does not have resources to perform distribution function

Satisfying Intermediary Requirements and Trade Relations Trade Relations

Channel Conflict arises when one channel member believes another channel member is engaged in behavior that is preventing it from achieving its goals.

Satisfying Intermediary Requirements and Trade Relations

Sources of Channel Conflict

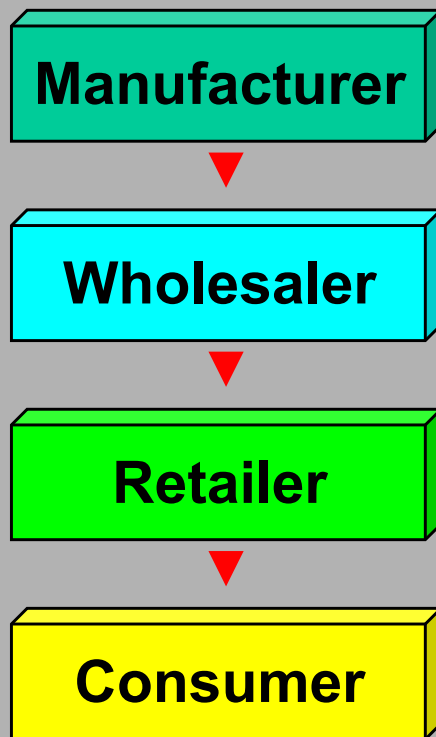
- Channel member bypasses another member and sells or buys direct (Wal-Mart)
- Uneven distribution of profit margins among channel members (Michelin)
- Manufacturer believes channel member is not giving its products adequate attention (Heinz)
- Manufacturer engages in dual distribution (Elizabeth Arden)

Channel Management: Evaluating Channel Members

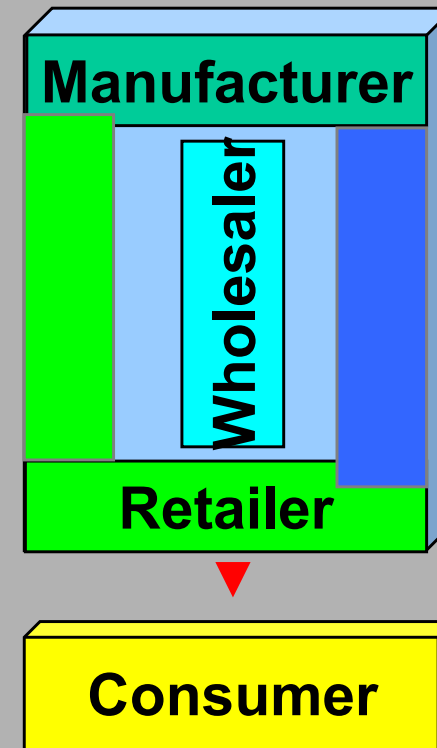
- Measure Performance Against Standards
 - Sales quotas
 - Average inventory levels
 - Customer delivery time
 - Treatment of damaged or lost goods
 - Cooperation on promotion and training
 - Customer service levels
- Recognize and reward performers
- Be sensitive to dealers

Conventional vs. Vertical Marketing Systems

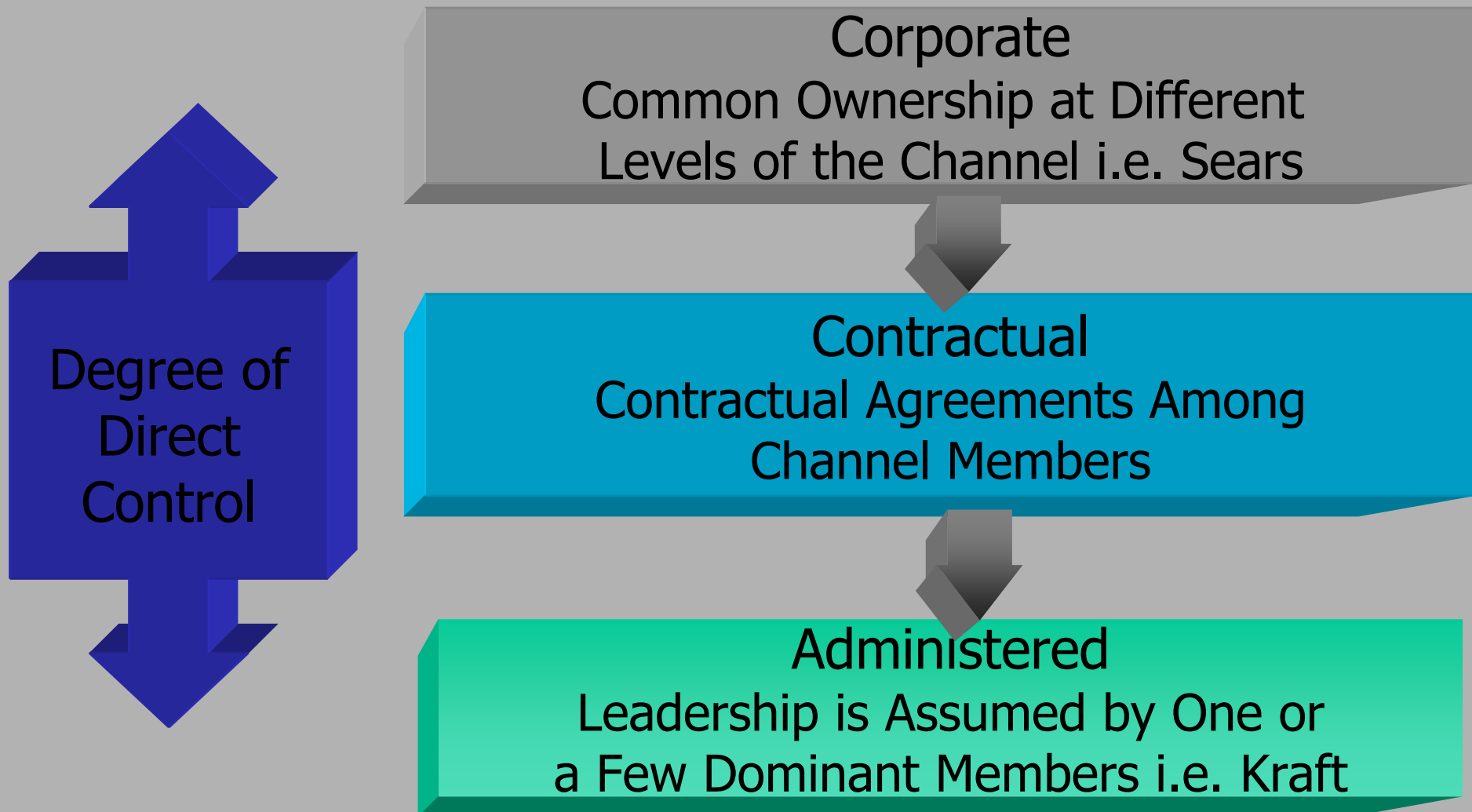
Conventional marketing channel



Vertical marketing system



Types of Vertical Marketing Systems



Nature and Importance of Marketing Logistics

- Involves getting the right product to the right customers in the right place at the right time.
- Companies today place greater emphasis on logistics because:
 - customer service and satisfaction have become the cornerstone of marketing strategy.
 - logistics is a major cost element for most companies.
 - the explosion in product variety has created a need for improved logistics management.
 - Improvements in information technology has created opportunities for major gains in distribution efficiency.

Goals of the Logistics System

Higher Distribution Costs;
Higher Customer Service
Levels

Goal:

To Provide a Targeted Level of Customer Service
at the Least Cost.

Maximize Profits, Not Sales

Lower Distribution Costs;
Lower Customer Service
Levels

Channel Selection at the Retail Level

Target Market Coverage

Exclusive

Selective

Intensive



Rolex
Faberge

Levi's
Sony

Wrigley's
Coke

