

Prologue: Marketing / Distribution channels

Compiled by R.Skapa

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
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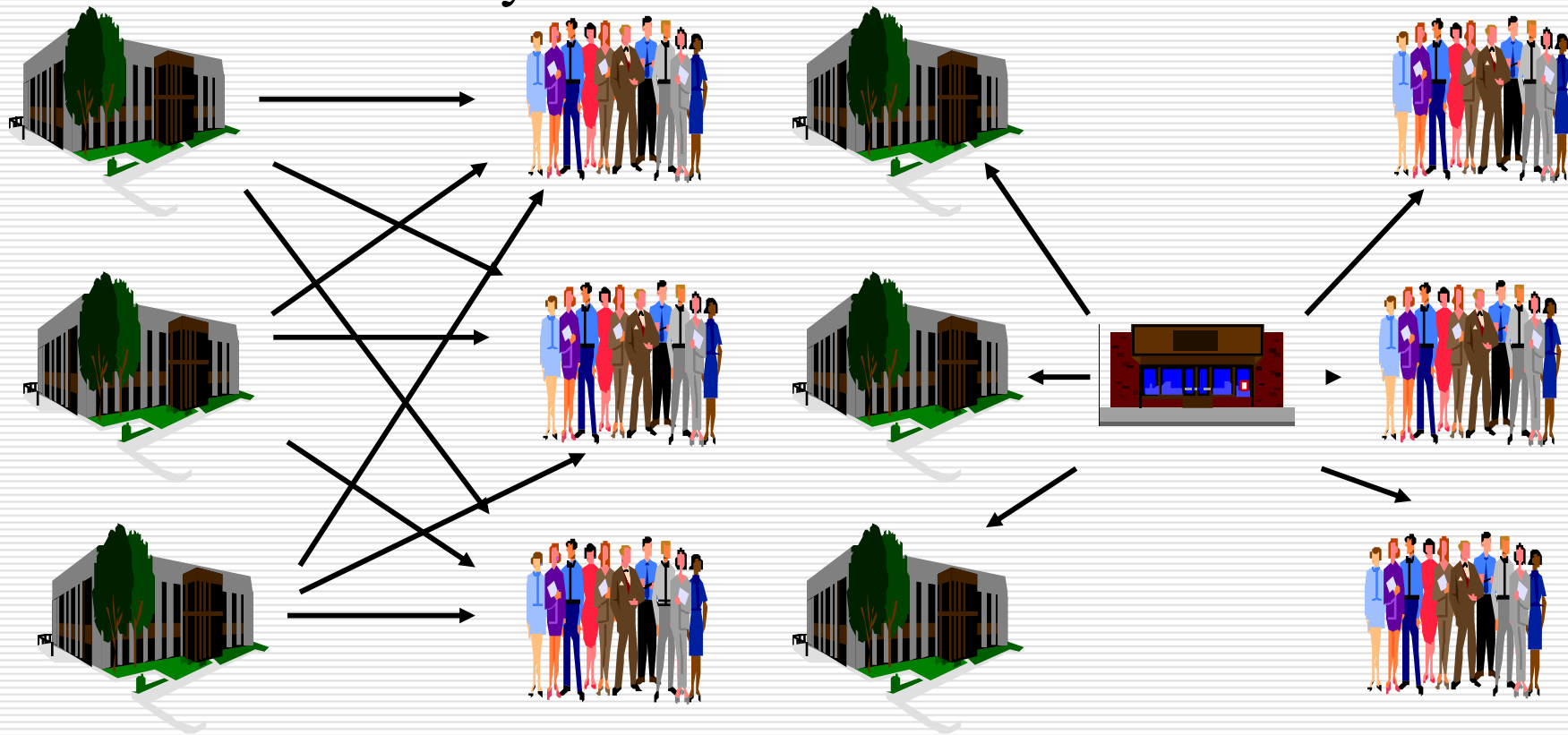
Nature of Distribution Channels: Why Use Marketing Intermediaries?

- ❑ 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.
-

The Nature and Importance of Marketing Channels

How Channel Members Add Value (Functions)

Information refers to the gathering and distributing research and intelligence information about actors and forces in the marketing environment needed for planning and aiding exchange

Promotion refers to the development and spreading persuasive communications about an offer

Contacts refers to finding and communicating with prospective buyers

The Nature and Importance of Marketing Channels

How Channel Members Add Value

Matching refers to shaping and fitting the offer to the buyer's needs, including activities such as manufacturing, grading, assembling, and packaging

Negotiation refers to reaching an agreement on price and other terms of the offer so that ownership or possession can be transferred

The Nature and Importance of Marketing Channels

How Channel Members Add Value

Physical distribution refers to transporting and storing goods

Financing refers to acquiring and using funds to cover the costs or carrying out the channel work

Risk taking refers to assuming the risks of carrying out the channel work

The Nature and Importance of Marketing Channels

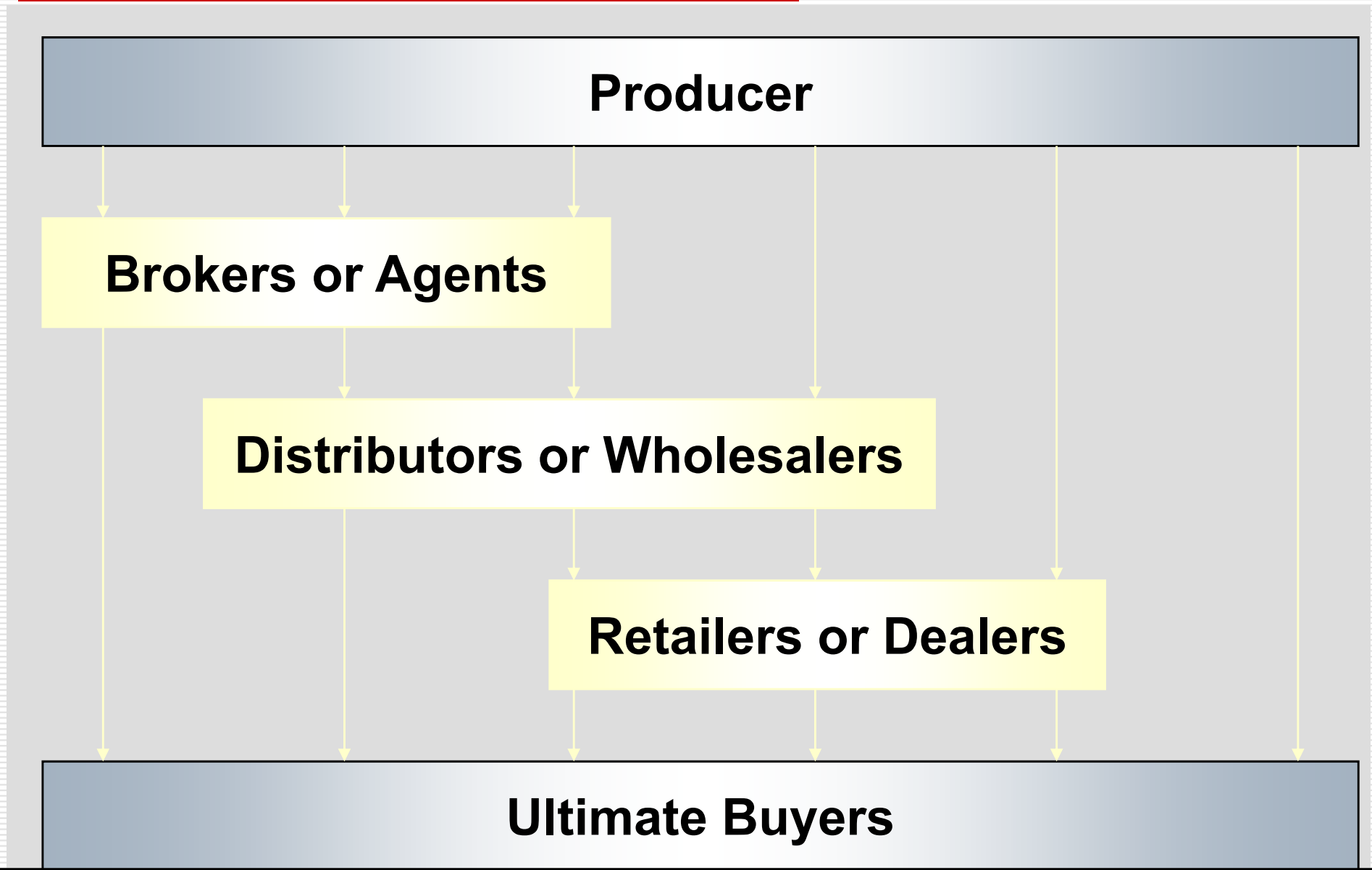
Number of Channel Members

Channel level refers to each layer of marketing intermediaries that performs some work in bringing the product and its ownership closer to the final buyer

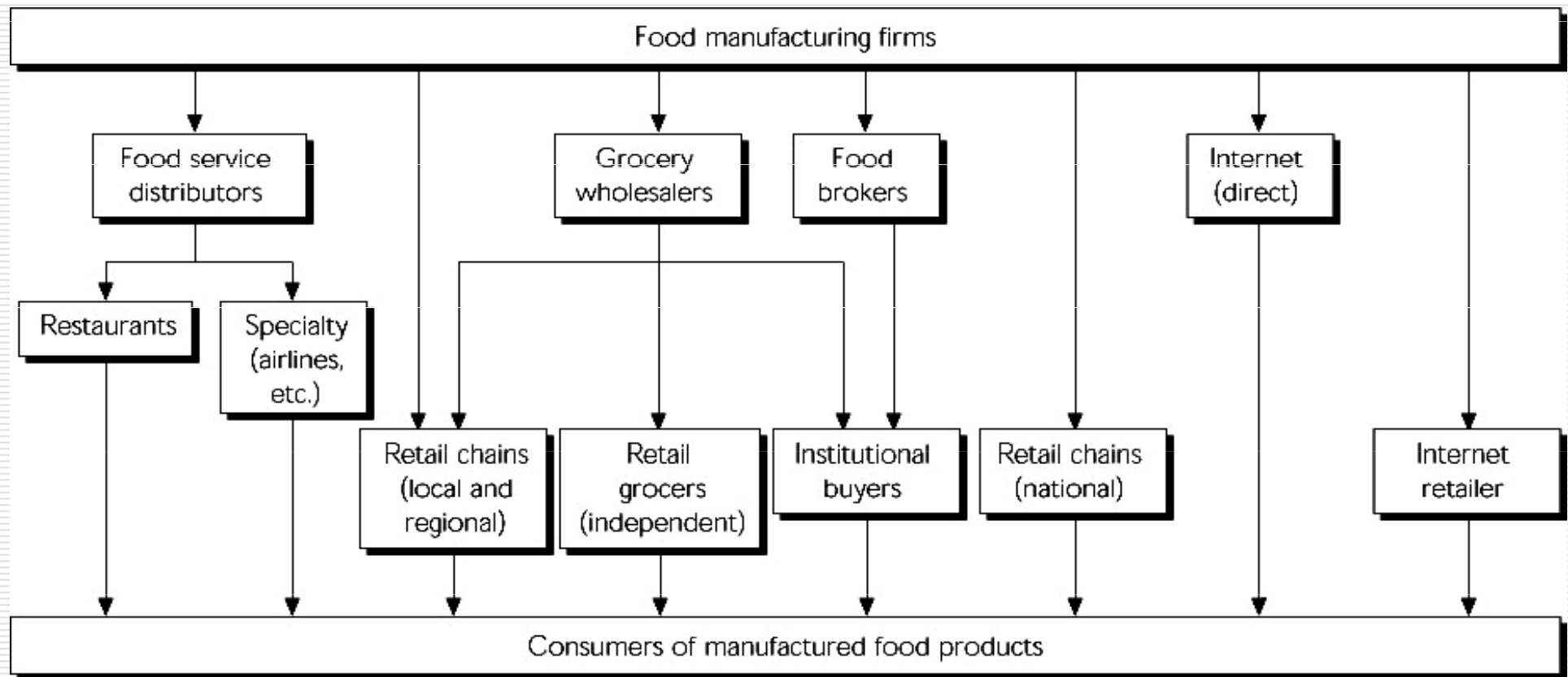
Direct marketing channel has no intermediary levels; the company sells directly to consumers

Indirect marketing channels contain one or more intermediaries

Traditional Marketing Channel Designs



Examples of Channels of Distribution for the Food Products Manufacturing Industry



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: RŠ1

- 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

Snímek 14

RŠ1

Avon, Oriflame, B2B
Škapa, 3/7/2009

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:

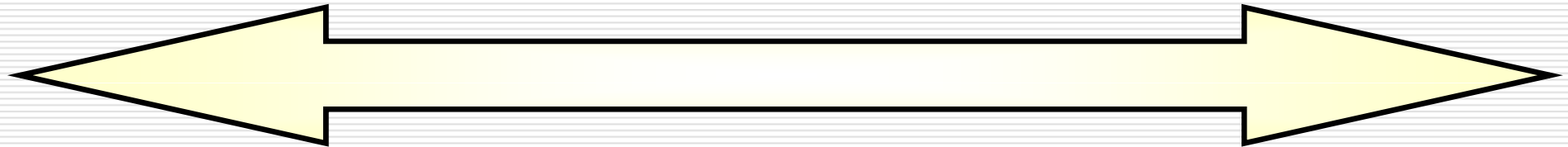
- Intermediaries can perform distribution functions more efficiently and less expensively
- Customers are hard to reach directly
- Organization does not have resources to perform distribution function

Target Market Coverage

Exclusive

Selective

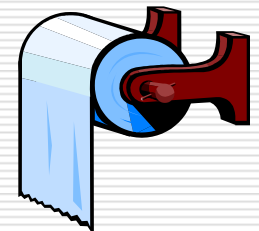
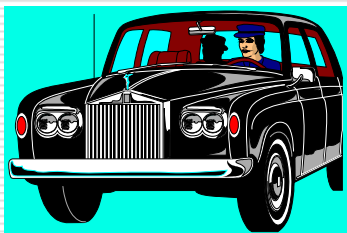
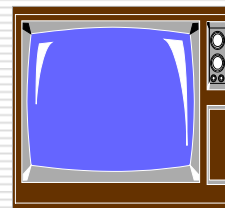
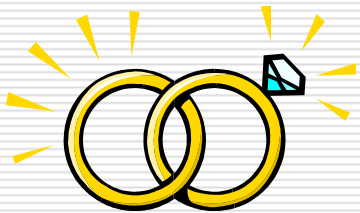
Intensive



Rolex
Faberge

Levi's
Sony

Wrigley's
Coke



Marketing Channel Systems

- Conventional distribution
 - Vertical Marketing Systems
 - Corporate VMS
 - Administered VMS
 - Contractual VMS
 - Horizontal Marketing Systems
 - Multichannel Marketing Systems
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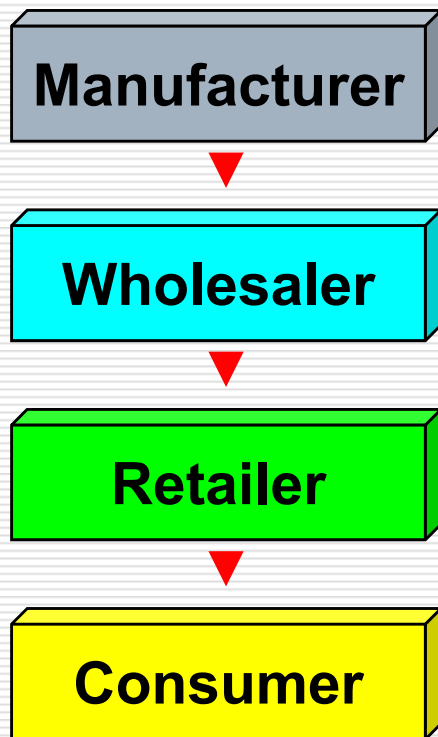
Conventional Distribution Systems

Conventional distribution systems

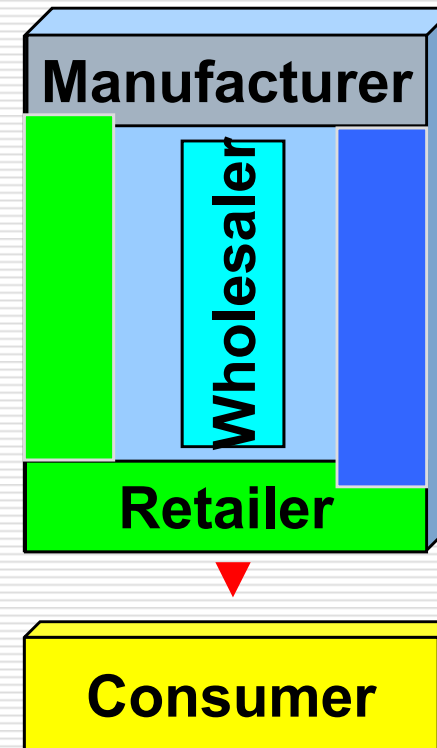
consist of one or more independent producers, wholesalers, and retailers. Each seeks to maximize its own profits and there is little control over the other members and no formal means for assigning roles and resolving conflict.

Conventional vs. Vertical Marketing Systems

Conventional marketing channel



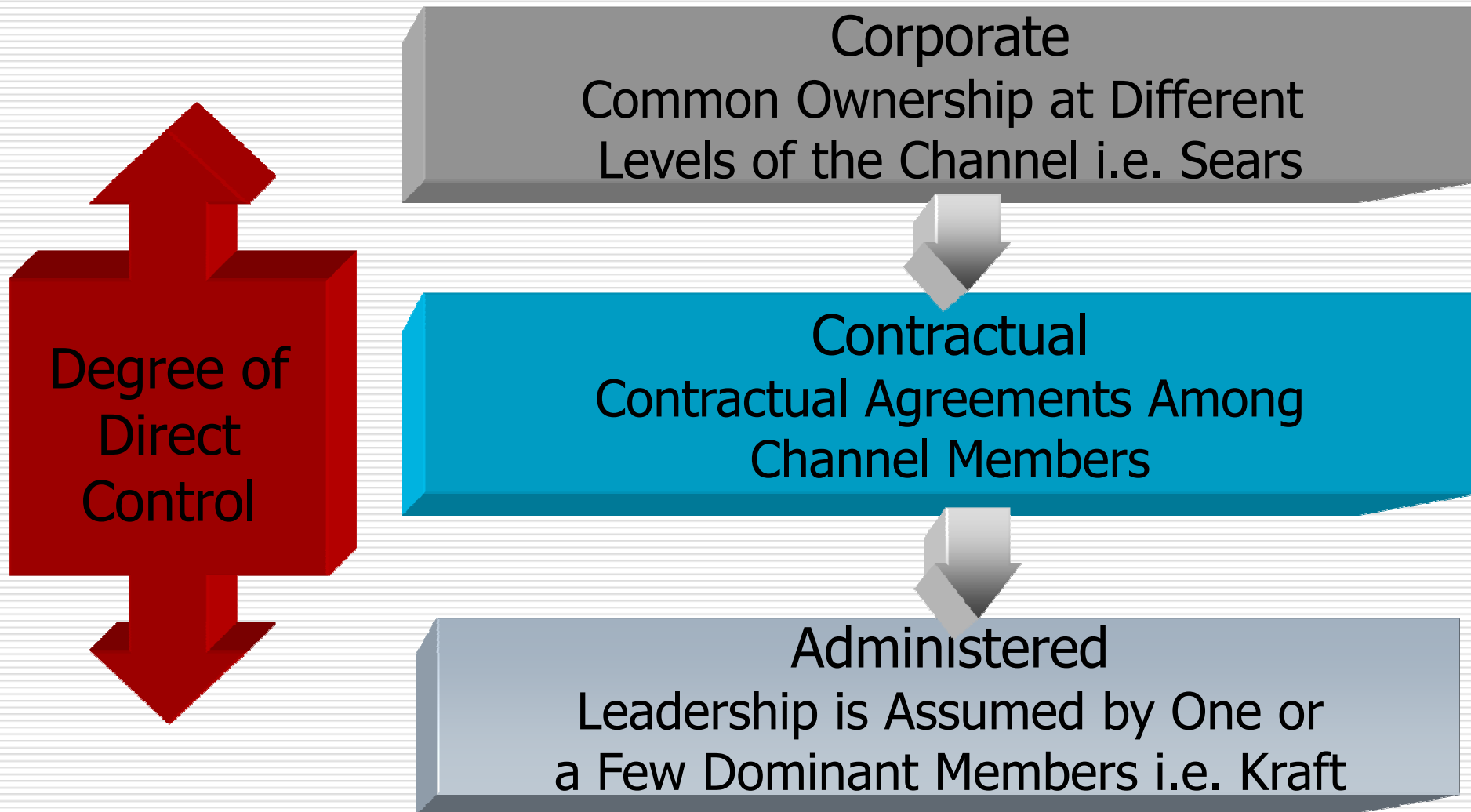
Vertical marketing system



Vertical Marketing Systems (VMS)

- ❑ The manufacturer, wholesaler, and retailer act as a unified system.
 - ❑ One channel member either owns the other channel members, franchises them, or has so much power that all channel members cooperate.
 - ❑ Arose in an effort to control channel conflict.
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Types of Vertical Marketing Systems



Contractual VMS: Three Types

- Wholesaler-sponsored voluntary chains
 - Wholesalers organize groups of independent retailers to better compete with large chain organizations.
 - Retailer cooperatives
 - Retailers organize to carry on wholesaling and possibly some production.
 - Franchise organizations
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Horizontal Marketing Systems

- ❑ Two or more unrelated companies put together resources or programs to exploit an emerging marketing opportunity.
 - ❑ Temporary or permanent basis.
 - ❑ May form a joint venture company.
-

Channel Behavior: Channel conflict

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

Horizontal conflict is conflict among members at the same channel level

Vertical conflict is conflict between different levels of the same channel

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 Conflict Case Studies

Overview:

- Term Definition & Context
- Case 1: Apple
- Case 2: Ortlieb
- Case 3: Synopsis

Channel Conflict: Definition

- Channel conflict occurs when manufacturers disintermediate their channel partners (distributors, retailers, dealers) by selling their products direct to consumers (wikipedia.org)
 - The Term describes situation where certain action by manufacturer (i.e. opening an e-commerce store) is interpreted as unfavorable by other members of the distribution channel, (i.e. when distributors feel like they are competing against the manufacturer)
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Case 1: Apple

- Major computer brand
 - Dual Distribution Conflict
 - Apple has been increasing its own distribution network at the expense of Apple distributors
 - 1997 – Online e-commerce store
 - 2003 – 50th Apple store (owned by Apple)
 - 2006 – Apple „Flag ship“ store on 5th Avenue in NYC (open 24 hrs a day, just like the dot com)
-

Case 1: Apple



- Distributors took action in 2004
 - www.TellOnApple.org
 - Described un fair practice by Apple,
 - namely late shippements of „new & hot“ items highly demanded by the Apple brand fans (i.e. iPhones, certain iMacs etc.)
 - Negative publicity and WoM for Apple
 - Apple Inc. sales were not hurt however and Apple continues to built its own distribution network: 103 own stores at the end of 2005
 - In stores owned by Apple: for the 2004 fiscal year:
Sales: 1,2 bil. USD, Profit: 39. mil. USD
-



Case 2: Ortlieb

- Disintermediation problem (skipping the middleman)
 - German Outdoor equipment manufacturer
 - Network of 1500 distributors (company has no distribution network on its own)
 - In 2003 Ortlieb GmbH was opening an e-store and facing a Channel Conflict Challenge
 - Opening its own online store AND Minimizing channel conflict with distributors
 - Managed/prevented the conflict to occur
 - Creative solution, sales grew both online and offline (brick and mortar stores)
-



Case 2: Ortlieb

- Management took several steps to prevent the conflict
 - **Develop a conflict-free solution**
 - Take advantage of e-commerce growth
 - Minimize the e-store vs. distributor store conflict
 - **Solution: Customers who order in e-store choose where they want the goods delivered**
 - Package via Post
 - In store pickup: Pick the order up In one of the 1500 Distributor Stores
 - **This solution is beneficial for all involved parties**
 - Customers: More options to chose from
 - Distributors: e-store drives customers to their brick and mortar stores, where additional items / accessories can be purchased
 - Manufacturer: Saves on shipping cost, as the e-commerce B2C orders can be shipped via existing B2B distribution channel (bulk shipping)
 - ~~□ **Communication campaign directed at distributors** (direct marketing) Manufacturer explained the benefits of aforementioned solution to distributors~~

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http://en.wikipedia.org/wiki/Channel_conflict
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Channel Design Decisions

Designing a channel system requires:

- Analyzing consumer needs
- Setting channel objectives
- Identifying major channel alternatives
- Evaluation

Channel Design Decisions:

Analyzing Consumer Needs

Designing a marketing channel starts with finding out what target customers want from the channel

Channel objectives in terms of:

- Targeted levels of customer service
 - What segments to serve
 - Best channels to use
 - Minimizing the cost of meeting customer service requirements
-

Channel Design Decisions:

Setting Channel Objectives

Objectives are influenced by:

- Nature of the company
- Marketing intermediaries
- Competitors
- Environment

Channel Design Decisions: Identifying Major Alternatives

In terms of:

- Types of intermediaries
- Number of intermediaries
- Responsibilities of each channel member

Channel Design Decisions: Identifying Major Alternatives

Channel Factors

- Intermediary type*
- Number of intermediaries*
- Terms and responsibilities of intermediaries*

- Merchants
 - Buy, take title, and resell merchandise
 - Agents
 - Find customers, negotiate, do not take title to merchandise
 - Facilitators
 - Aid in distribution, do not negotiate or take title to merchandise
-

Channel Design Decisions: Identifying Major Alternatives

Channel Factors

- *Intermediary type*
- *Number of intermediaries*
- *Terms and responsibilities of intermediaries*

- Exclusive distribution
 - Severely limited distribution
 - Selective distribution
 - Some intermediaries willing to carry good are selected
 - Intensive distribution
 - Offering is placed in as many outlets as possible.
-

Channel Design Decisions: Identifying Major Alternatives

Channel Factors

- Intermediary type*
- Number of intermediaries*
- Terms and responsibilities of intermediaries*

- Price policies
 - Price list and schedule of discounts
- Conditions of sale
 - Payment terms and guarantees
- Territorial rights
 - Define territory / terms
- Services to be performed by party

Channel Design Decisions: Evaluating the Major Alternatives

Economic criteria compares the likely sales costs and profitability of different channel members

Control refers to channel members' control over the marketing of the product

Adaptive criteria refers to the ability to remain flexible to adapt to environmental changes

Channel Design Decisions:

Evaluating the Major Alternatives

- 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
-

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.
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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.

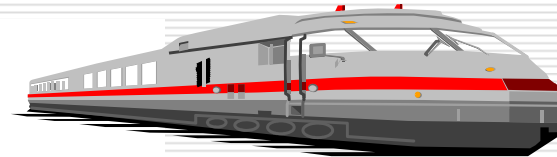
Maximize Profits, Not Sales

Lower Distribution Costs;
Lower Customer Service
Levels

Transportation Modes

Rail

Nation's largest carrier, cost-effective for shipping bulk products, piggyback



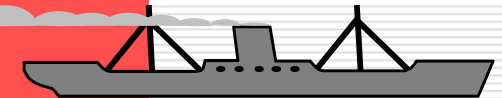
Truck

Flexible in routing & time schedules, efficient for short-hauls of high value goods



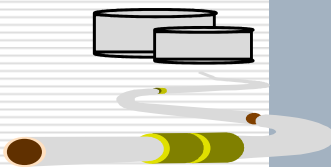
Water

Low cost for shipping bulky, low-value, non perishable goods, slowest form



Pipeline

Ship petroleum, natural gas, and chemicals from sources to markets



Air

High cost, ideal when speed is needed or distance markets have to be reached

