

# 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

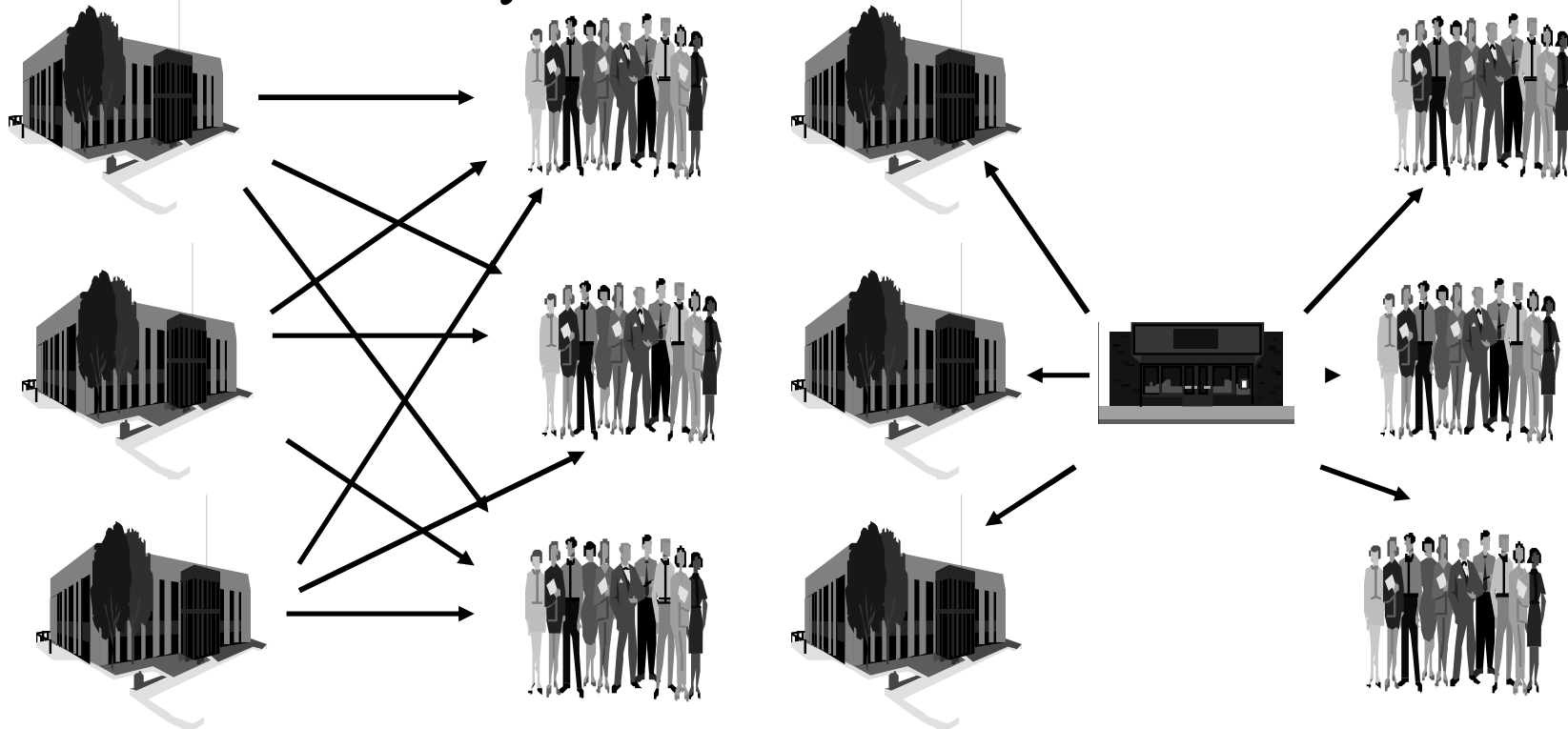
# Nature of Distribution Channels: Why Use Marketing Intermediaries?

- 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

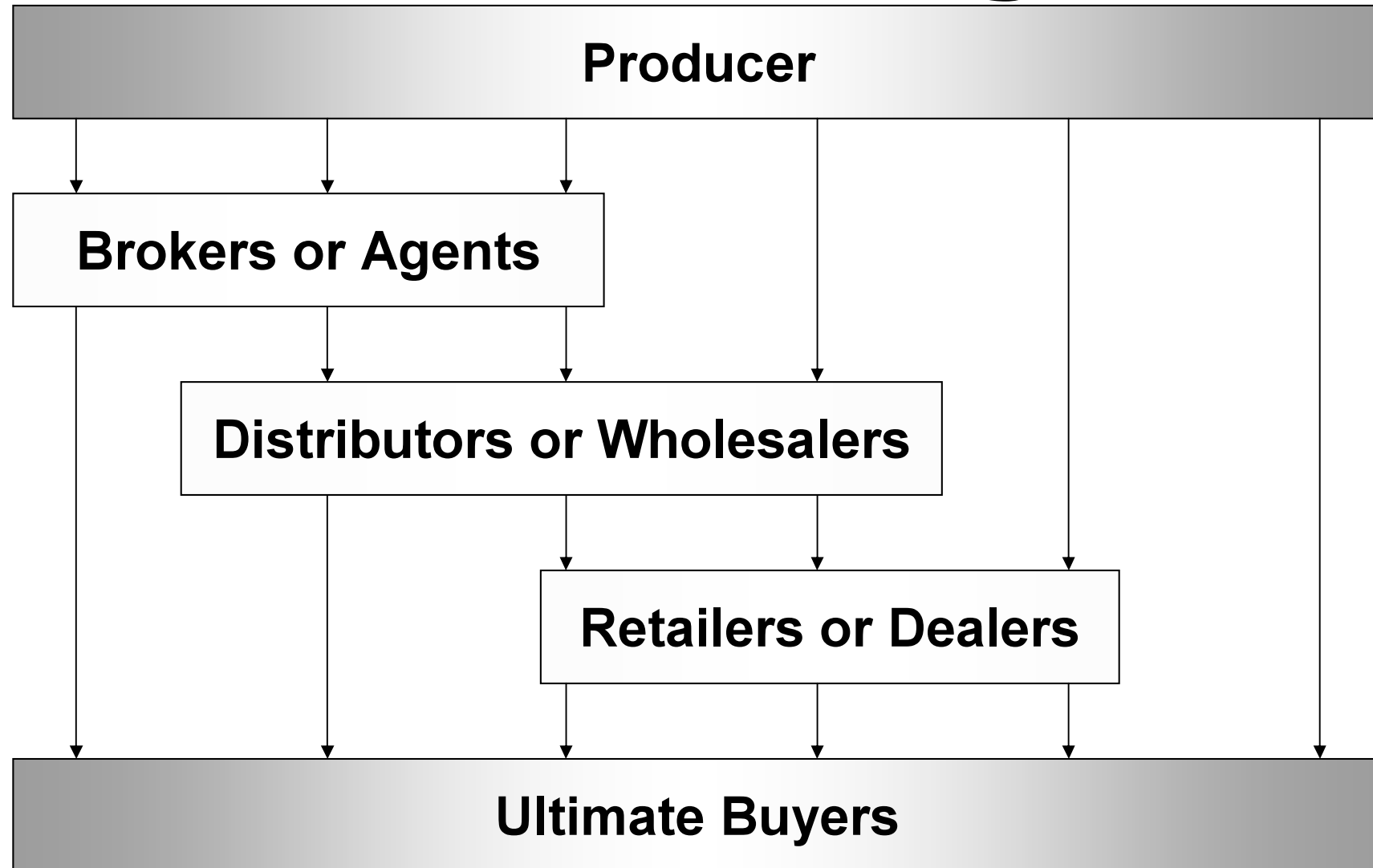
- Links a producer to buyers
- Performs sales, advertising, and promotion
- Influences the firm's pricing strategy
- Affects product strategy through branding policies, willingness to stock and customize offerings, install, maintain, offer credit, etc.

# 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**

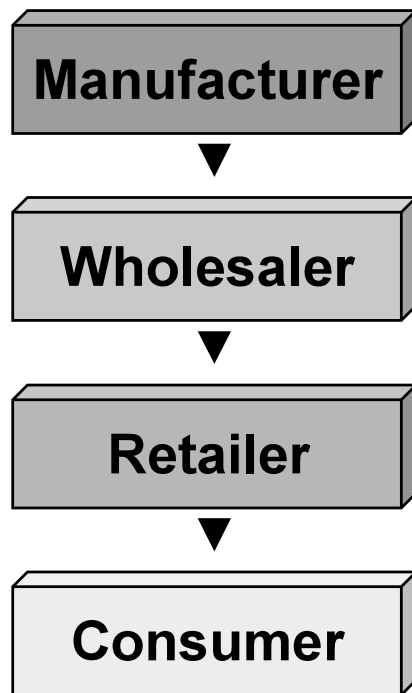
- Channel member bypasses another member and sells or buys direct (Wal-Mart)
- Uneven distribution of profit margins among channel members (Michelin)
- Manufacturer believes channel member is not giving its products adequate attention (Heinz)
- Manufacturer engages in dual distribution (Elizabeth Arden)

# Channel Management: Evaluating Channel Members

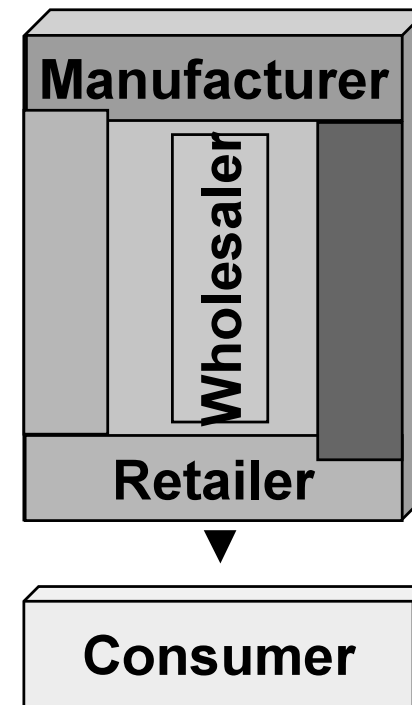
- Measure Performance Against Standards
  - Sales quotas
  - Average inventory levels
  - Customer delivery time
  - Treatment of damaged or lost goods
  - Cooperation on promotion and training
  - Customer service levels
- Recognize and reward performers
- Be sensitive to dealers

# Conventional vs. Vertical Marketing Systems

**Conventional marketing channel**

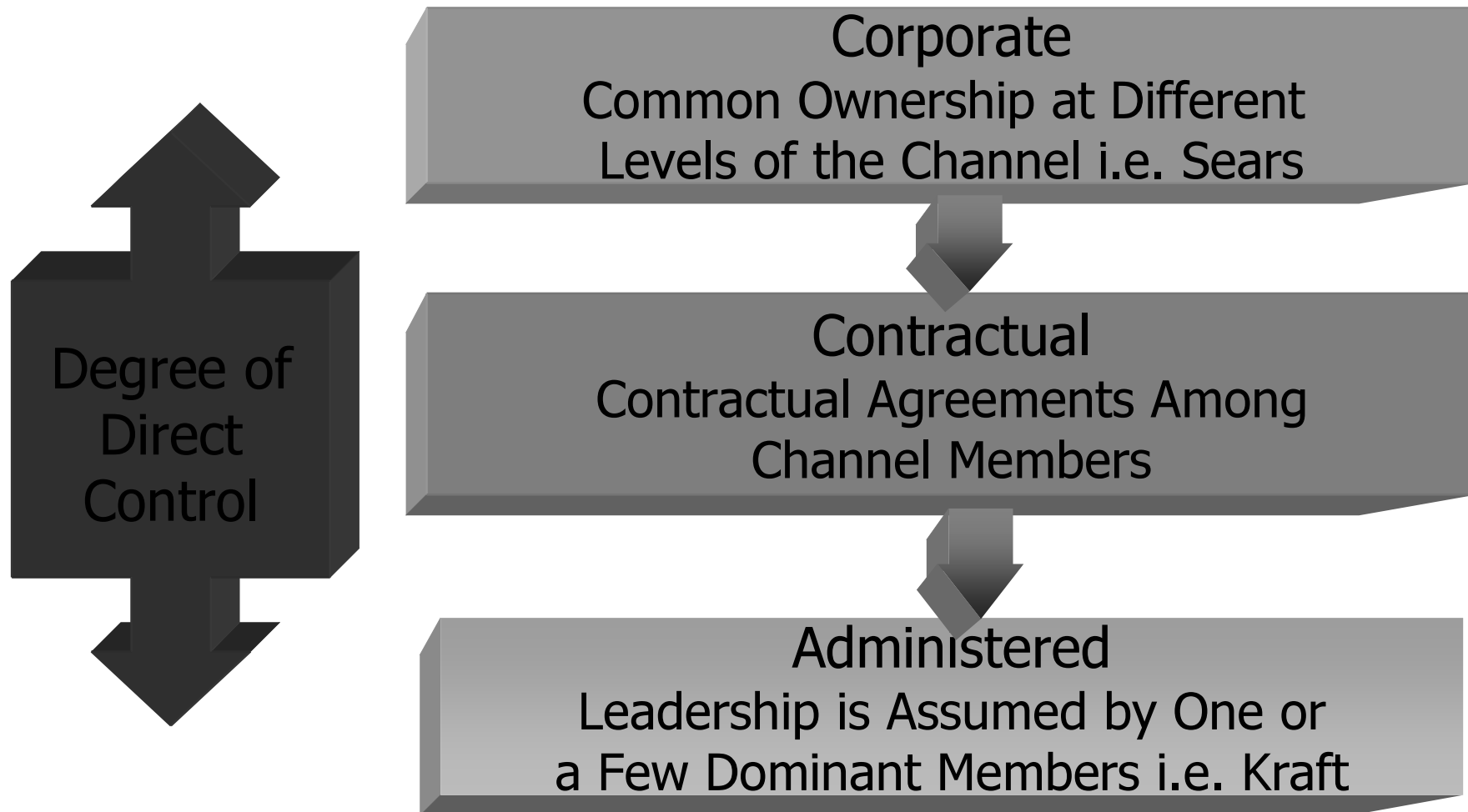


**Vertical marketing system**





# 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.

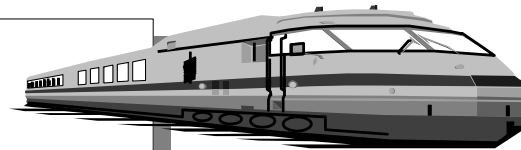
**Maximize Profits, Not Sales**

Lower Distribution Costs;  
Lower Customer Service  
Levels

# Transportation Modes

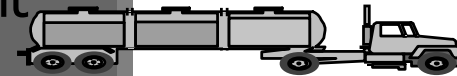
## *Rail*

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



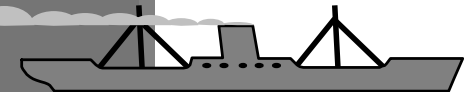
## *Truck*

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



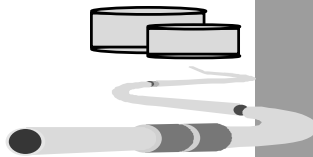
## *Water*

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



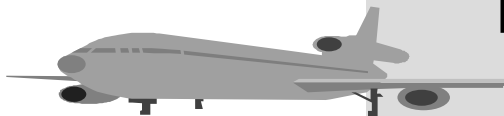
## *Pipeline*

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



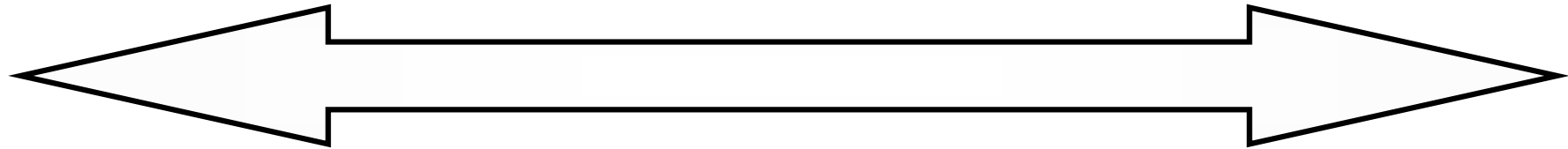
# Channel Selection at the Retail Level

## Target Market Coverage

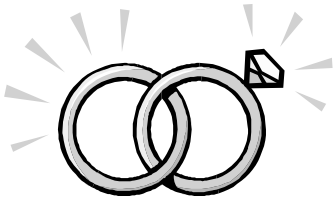
**Exclusive**

**Selective**

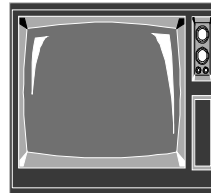
**Intensive**



**Rolex**  
**Faberge**



**Levi's**  
**Sony**



**Wrigley's**  
**Coke**

