

# Prologue: Marketing / Distribution channels

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Compiled by R.Skapa

# Marketing Channel

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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.

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# What is a marketing channel?

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*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.

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# Channel Flows

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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?

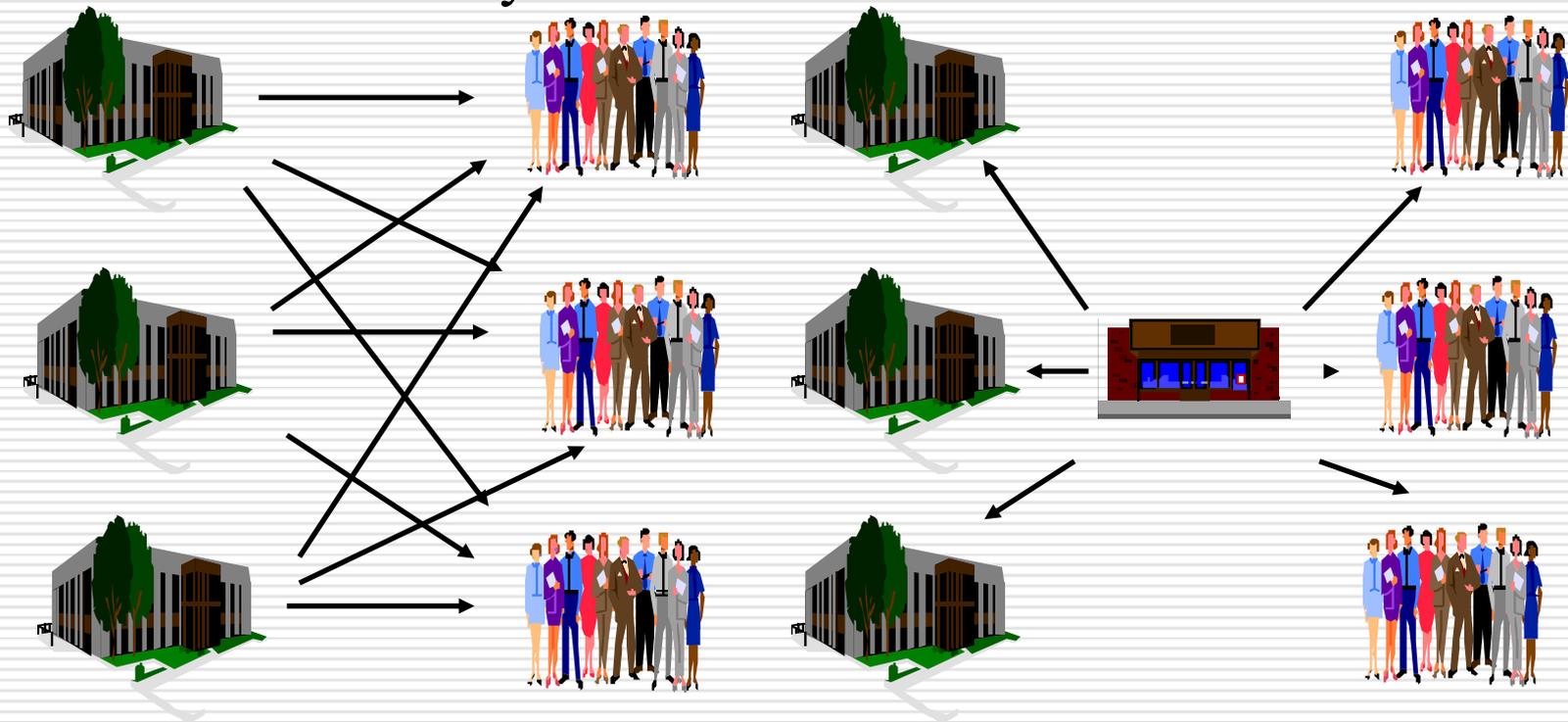
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- ❑ Create greater efficiencies
- ❑ Transform producers product assortment into assortment wanted by consumers
- ❑ Match supply with demand
- ❑ Services and ideas must be available to target market



# 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

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- ❑ 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.
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# The Nature and Importance of Marketing Channels

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## *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

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## *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

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## *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

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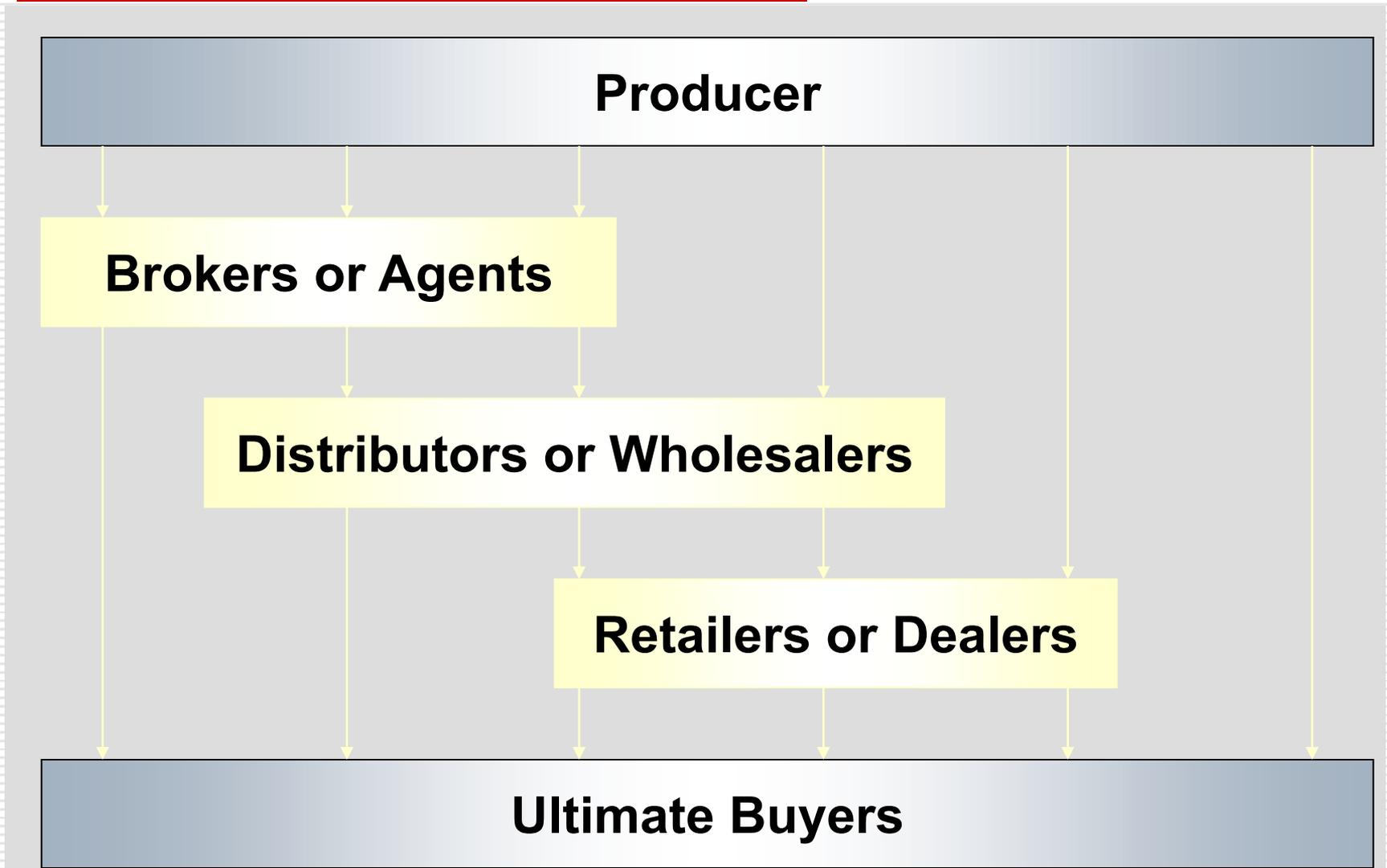
## *Number of Channel Members*

**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

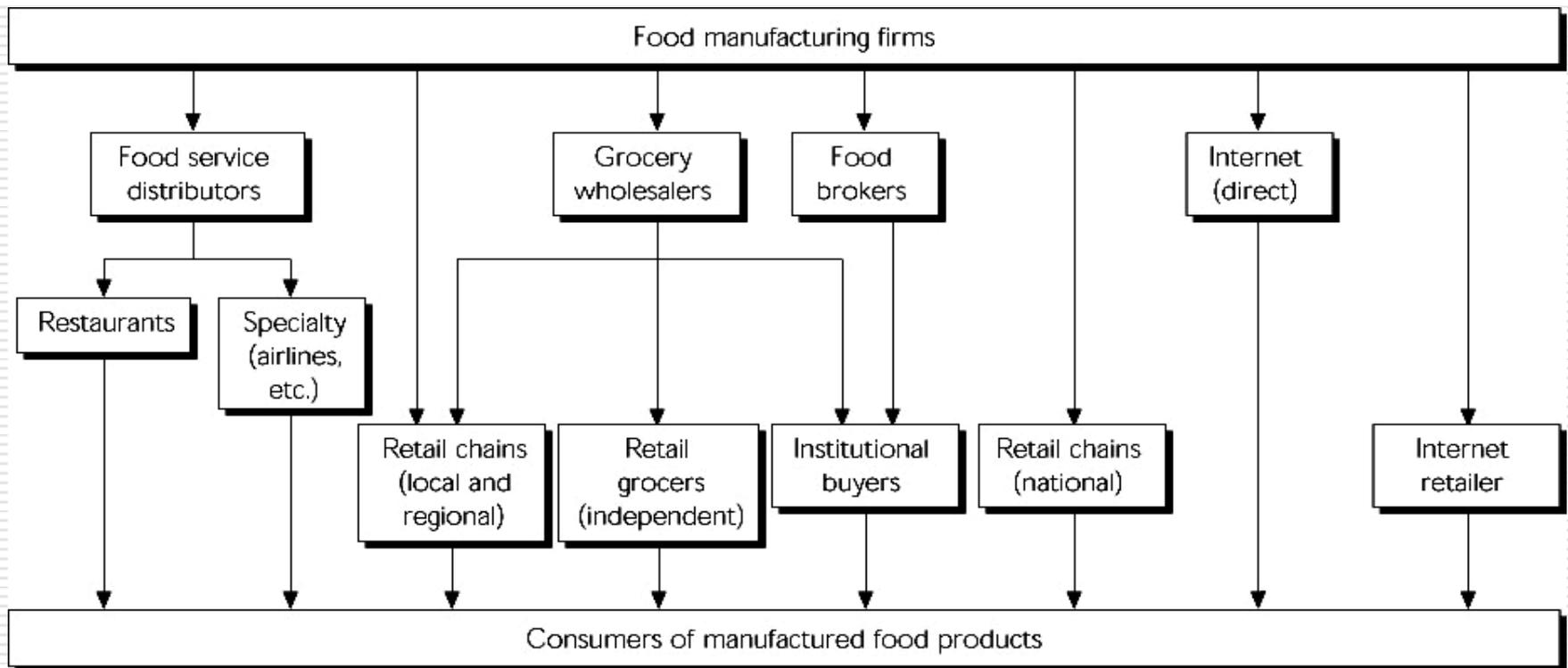
**Indirect marketing channels** contain one or more intermediaries

# Traditional Marketing Channel Designs



# *Examples of Channels of Distribution for the Food Products Manufacturing Industry*

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# 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:

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

# The Design of Marketing Channels

Indirect distribution must be considered when:

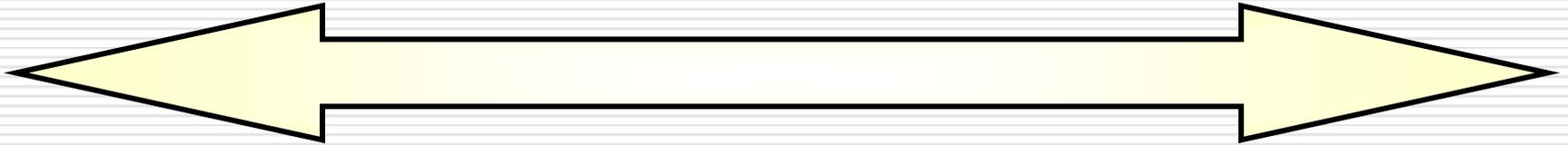
- ❑ Intermediaries can perform distribution functions more efficiently and less expensively
- ❑ Customers are hard to reach directly
- ❑ Organization does not have resources to perform distribution function

# Target Market Coverage

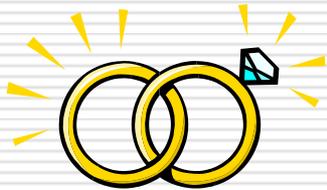
**Exclusive**

**Selective**

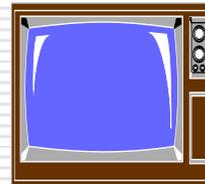
**Intensive**



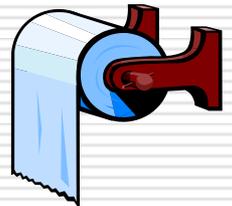
Rolex  
Faberge



Levi's  
Sony



Wrigley's  
Coke



# Marketing Channel Systems

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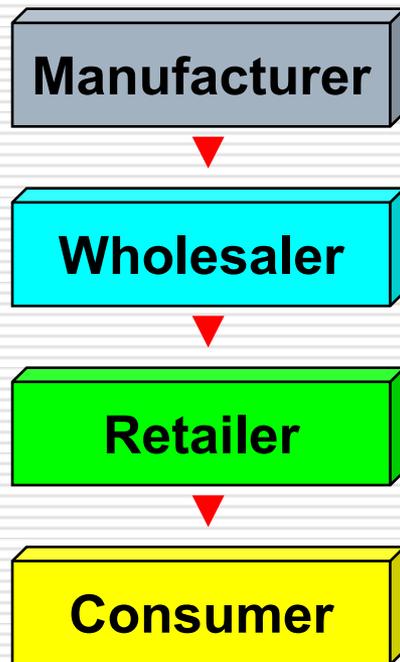
# Conventional Distribution Systems

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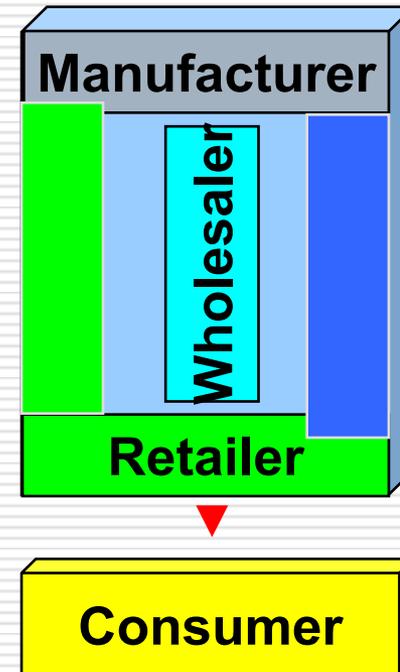
**Conventional distribution systems** consist of one or more independent producers, wholesalers, and retailers. Each seeks to maximize its own profits and there is little control over the other members and no formal means for assigning roles and resolving conflict.

# Conventional vs. Vertical Marketing Systems

**Conventional marketing channel**



**Vertical marketing system**

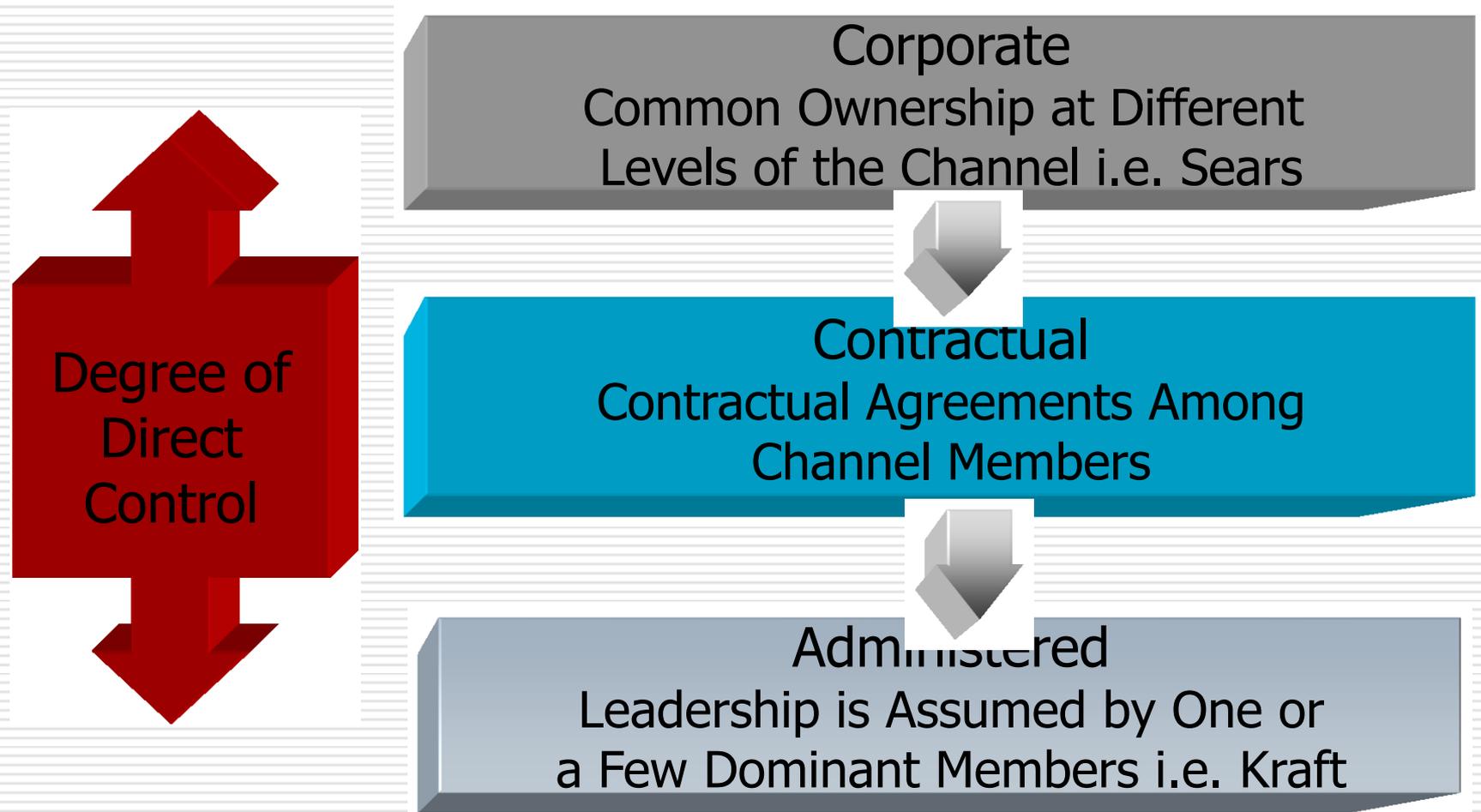


# Vertical Marketing Systems (VMS)

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- ❑ 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

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- 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

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- ❑ 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.
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# Channel Behavior:

## Channel conflict

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**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

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# 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

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## Overview:

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

# Channel Conflict: Definition

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- 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

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- 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)
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# Case 1: Apple

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- Distributors took action in 2004
    - [www.TellOnApple.org](http://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
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# Case 2: Ortlieb

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- 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)
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# Case 2: Ortlieb

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- 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

# References

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[http://www.reshare.com/channelmanagement/understanding\\_channel\\_management.htm](http://www.reshare.com/channelmanagement/understanding_channel_management.htm)
  - ❑ Channel Conflict  
[http://en.wikipedia.org/wiki/Channel\\_conflict](http://en.wikipedia.org/wiki/Channel_conflict)
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# Channel Design Decisions

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Designing a channel system requires:

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

# Channel Design Decisions: Analyzing Consumer Needs

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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**

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Objectives are influenced by:

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

# Channel Design Decisions: Identifying Major Alternatives

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In terms of:

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

# Channel Design Decisions: Identifying Major Alternatives

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## Channel Factors

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- *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
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# Channel Design Decisions: Identifying Major Alternatives

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## Channel Factors

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- *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

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## Channel Factors

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- *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

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**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

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# Channel Design Decisions:

## Evaluating the Major Alternatives

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- 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
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# Nature and Importance of Marketing Logistics

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- ❑ 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

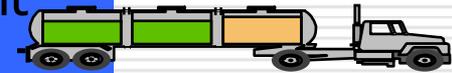
## *Rail*

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



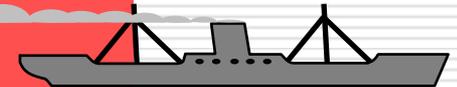
## *Truck*

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



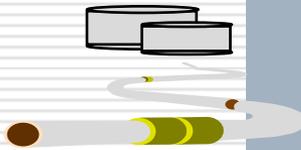
## *Water*

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

