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Manage Marketing Channels

Chapter Questions

- What is a marketing channel system and value network?
- What work do marketing channels perform?
- How should channels be designed?
- What decisions do companies face in managing their channels?
- How should companies integrate channels and manage channel conflict?
- What are the key issues with e-commerce?

Marketing Channels

A marketing channel system is a set of interdependent organizations involved in the process of making a product or service available for use or consumption.

Channels and Marketing Decisions

A **push** strategy uses the manufacturer's sales force, trade Promotion money, and other means to induce intermediaries to carry, promote, and sell the product to end users.

A **pull** strategy uses advertising, promotion, and other forms Of communication to persuade consumers to demand the product from intermediaries.

Buyer Expectations for Channel Integration

- Ability to order a product online and pick it up at a convenient retail location
- Ability to return an online-ordered product to a nearby store
- Right to receive discounts based on total online and offline purchases

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Channel Member Functions

- Gather information
- Develop and disseminate persuasive communications
- Reach agreements on price and terms
- Acquire funds to finance inventories
- Assume risks
- Provide for storage
- Provide for buyers’ payment of their bills
- Oversee actual transfer of ownership

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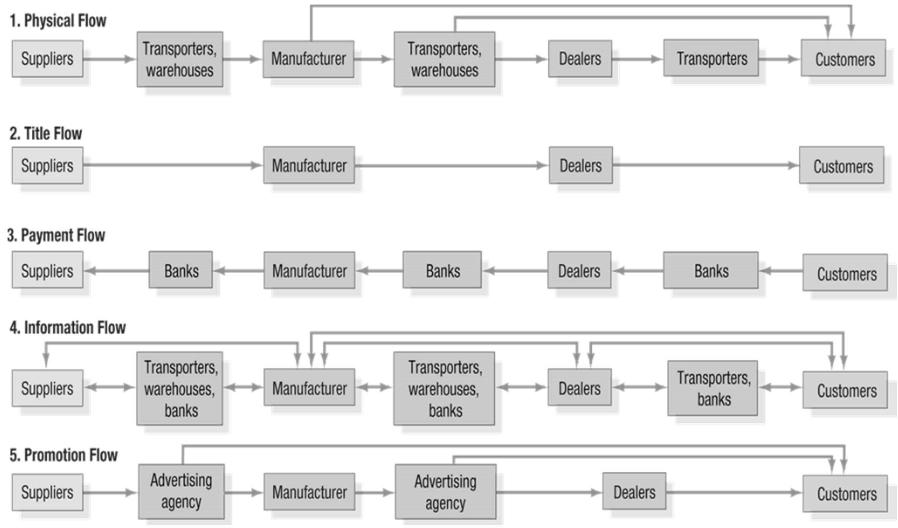
Fig 1: Marketing Channel Flows



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Marketing Channel Levels

A zero-level channel, also called a direct marketing channel, consists of a manufacturer selling directly to the final customer. The major examples are door-to-door sales, home parties, mail order, telemarketing, TV selling, Internet selling, and manufacturer-owned stores.

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Figure 2
Consumer Marketing Channels

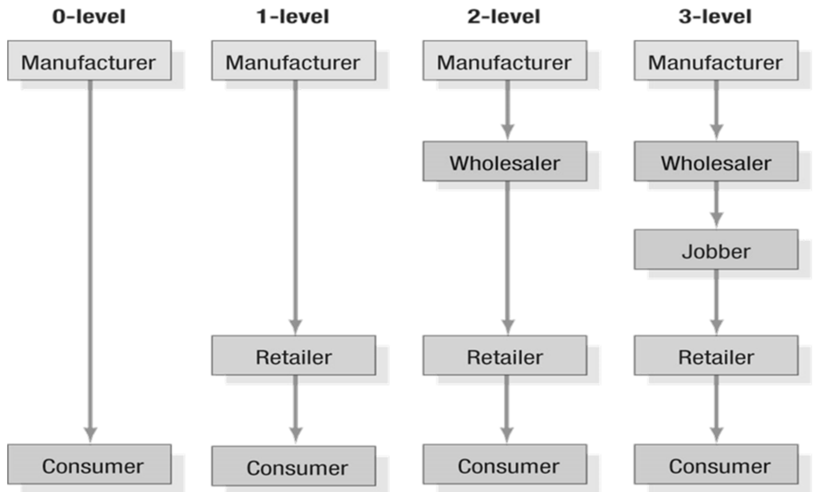

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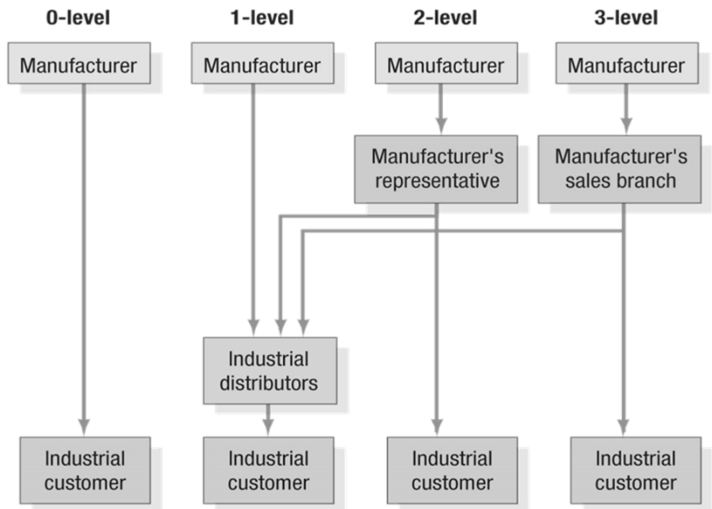
Figure 3
Industrial Marketing Channels



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Reverse-flow channels

- Channels normally describe a forward movement of products from source to user, but reverse-flow channels are also important:

  (1) to reuse products or containers (such as refillable chemical-carrying drums);

  (2) to refurbish products for resale (such as circuit boards or computers);

  (3) to recycle products (such as paper); and

  (4) to dispose of products and packaging.
- Reverse-flow intermediaries include manufacturers' redemption centers, community groups, trash collection specialists, recycling centers, trash-recycling brokers, and central processing warehousing.

Designing a Marketing Channel System

Analyze customer needs

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Establish channel objectives

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Identify major channel alternatives

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Evaluate major channel alternatives

Figure 4 What European Consumers Value

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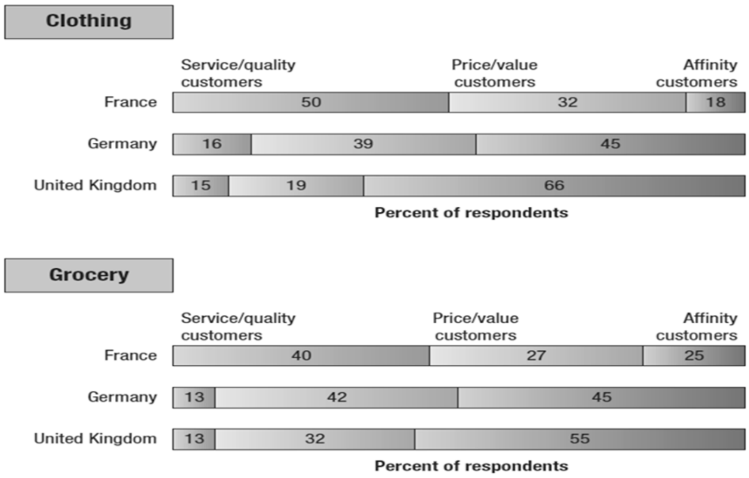


What European Consumers Value

- One study of 40 grocery and clothing retailers in France, Germany, and the United Kingdom found that they served three types of shoppers:

  (1) Service/quality customers who cared most about the variety and performance of products and service;

  (2) Price/value customers who were most concerned about spending wisely; and

  (3) Affinity customers who primarily sought stores that suited people like themselves or groups they aspired to join.
- As Figure 4 shows, customer profiles differed across the three markets: In France, shoppers stressed service and quality, in the United Kingdom, affinity, and in Germany, price and value. Even the same consumer, though, may choose different channels for different functions in a purchase, browsing a catalog before visiting a store or test driving a car at a dealer before ordering online.

Service Outputs of Channels

- Channels produce five service outputs:
- 1. **Lot size** is the number of units the channel permits a typical customer to purchase on one occasion. In buying cars for its fleet, Hertz prefers a channel from which it can buy a large lot size; a household wants a channel that permits a lot size of one.
- 2. **Waiting and delivery time** is the average time customers wait for receipt of goods. Customers increasingly prefer faster delivery channels.
- 3. **Spatial convenience** is the degree to which the marketing channel makes it easy for customers to purchase the product.
- 4. **Product variety** is the assortment provided by the marketing channel. Normally, customers prefer a greater assortment because more choices increase the chance of finding what they need, although too many choices can sometimes create a negative effect.
- 5. **Service backup** is the add-on services (credit, delivery, installation, repairs) provided by the channel. The greater the service backup, the greater the work provided by the channel.

Identifying Channel Alternatives

A. Types of intermediaries: direct sales force, through distributors, company stores, online retailers, mail-order catalogs, mass merchandisers, etc.

B. Number of intermediaries

- ***Exclusive distribution*** means severely limiting the number of intermediaries. It's appropriate when the producer wants to maintain control over the service level and outputs offered by the resellers, and it often includes exclusive dealing arrangements. By granting exclusive distribution, the producer hopes to obtain more dedicated and knowledgeable selling.
- ***Selective distribution*** relies on only some of the intermediaries willing to carry a particular product.
- ***Intensive distribution*** places the goods or services in as many outlets as possible. This strategy serves well for snack foods, soft drinks, newspapers, candies, and gum—products consumers buy frequently or in a variety of locations.

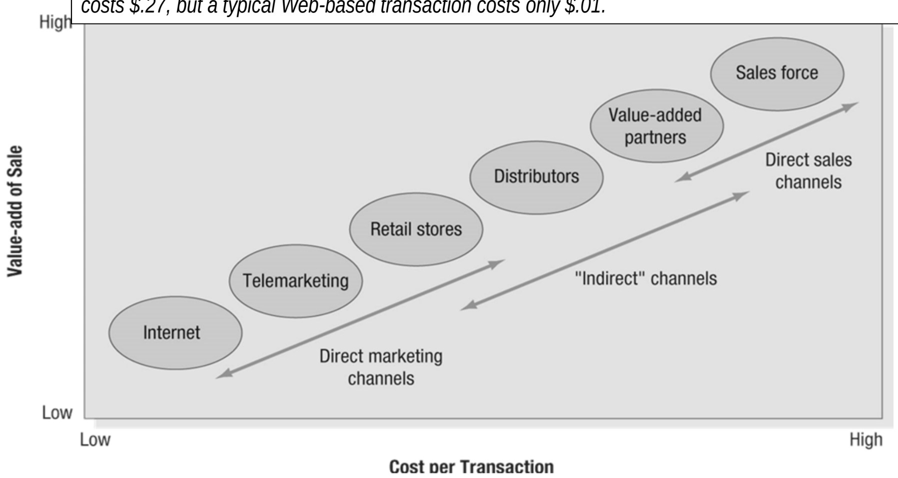
Identifying Channel Alternatives *(cont'd)*

C. Terms and responsibilities

- ***Price policy*** calls for the producer to establish a price list and schedule of discounts and allowances that intermediaries see as equitable and sufficient.
- ***Conditions of sale*** refers to payment terms and producer guarantees. Most producers grant cash discounts to distributors for early payment. They might also offer a guarantee against defective merchandise or price declines, creating an incentive to buy larger quantities.
- ***Distributors' territorial rights*** define the distributors' territories and the terms under which the producer will enfranchise other distributors. Distributors normally expect to receive full credit for all sales in their territory, whether or not they did the selling.
- ***Mutual services and responsibilities*** must be carefully spelled out, especially in franchised and exclusive- agency channels.

Fig 5: The Value-Adds vs. Costs of Different Channels

The figure shows how six different sales channels stack up in terms of the value added per sale and the cost per transaction. For example, in the sale of industrial products costing between $2,000 and $5,000, the cost per transaction has been estimated at $500 (field sales), $200 (distributors), $50 (telesales), and $10 (Internet). A Booz Allen Hamilton study showed that the average transaction at a full-service branch costs the bank $4.07, a phone transaction costs $.54, and an ATM transaction costs $.27, but a typical Web-based transaction costs only $.01.



Channel-Management Decisions

- Selecting channel members
- Training channel members
- Motivating channel members
- Evaluating channel members
- Modifying channel members

Channel Power

- Channel power is the ability to alter channel members' behavior so they take actions they would not have taken otherwise. Manufacturers can draw on the following types of power to elicit cooperation:
- **Coercive power** means that the manufacturer threatens to withdraw a resource or terminate a relationship if intermediaries fail to cooperate.
- **Reward power** includes when the manufacturer offers intermediaries an extra benefit for performing specific acts or functions.
- **Legitimate power** includes the manufacturer requesting a behavior that is warranted under the contract.
- **Expert power** means the manufacturer has special knowledge the intermediaries value. Once the intermediaries acquire this expertise, however, expert power weakens.
- **Referent power** means the manufacturer is so highly respected that intermediaries are proud to be associated with it.

Channel Integration and Systems

- A conventional marketing channel consists of an independent producer, wholesaler(s), and retailer(s). Each is a separate business seeking to maximize its own profits, even if this goal reduces profit for the system as a whole. No channel member has complete or substantial control over other members.
- A **vertical marketing system (VMS),** by contrast, includes the producer, wholesaler(s), and retailer(s) acting as a unified system. One channel member, the channel captain, owns or franchises the others or has so much power that they all cooperate.
- An **administered VMS** coordinates successive stages of production and distribution through the size and power of one of the members. Manufacturers of dominant brands can secure strong trade cooperation and support from resellers.
- A **contractual VMS** consists of independent firms at different levels of production and distribution, integrating their programs on a contractual basis to obtain more economies or sales impact than they could achieve alone. Sometimes thought of as "value-adding partnerships" (VAPs), contractual VMSs come in three types: wholesaler-sponsored voluntary chains, retailer cooperatives, and franchise organizations.
- ***Horizontal Marketing Systems***
- ***Multichannel systems***

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What is Channel Conflict?

- **Channel conflict** occurs when one member's actions prevent another channel from achieving its goal.
- Types of channel conflict
  - *Horizontal channel* conflict occurs between channel members at the same level.
  - *Vertical channel* conflict occurs between different levels of the channel.
  - *Multichannel conflict* exists when the manufacturer has established two or more channels that sell to the same market. It's likely to be especially intense when the members of one channel get a lower price (based on larger-volume purchases) or work with a lower margin.

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Causes of Channel Conflict

- Goal incompatibility
- Unclear roles and rights
- Differences in perception
- Intermediaries' dependence on the manufacturer

Strategies for Managing Channel Conflict

- ***Strategic justification***: In some cases, a convincing strategic justification that they serve distinctive segments and do not compete as much as they might think can reduce potential for conflict among channel members.
- ***Dual compensation*** pays existing channels for sales made through new channels.
- ***Superordinate goal***: Channel members can come to an agreement on the fundamental or superordinate goal they are jointly seeking, whether it is survival, market share, high quality, or customer satisfaction. They usually do this when the channel faces an outside threat, such as a more efficient competing channel, an adverse piece of legislation, or a shift in consumer desires.
- ***Employee exchange***: A useful step is to exchange persons between two or more channel levels.
- ***Joint memberships***: Similarly, marketers can encourage joint memberships in trade associations.

Strategies for Managing Channel Conflict

- ***Co-optation*** is an effort by one organization to win the support of the leaders of another by including them in advisory councils, boards of directors, and the like. When conflict is chronic or acute, the parties may resort to diplomacy, mediation, or arbitration.
- ***Diplomacy*** takes place when each side sends a person or group to meet with its counterpart to resolve the conflict.
- ***Mediation*** relies on a neutral third party skilled in conciliating the two parties' interests.
- In ***arbitration*** two parties agree to present their arguments to one or more arbitrators and accept their decision.
- ***Legal resource***: If nothing else proves effective, a channel partner may choose to file a lawsuit.

- **Review Question**
- In designing a marketing channel system, the marketer must understand the service output levels desired by target customers. Channels provide five service outputs. List and briefly describe each of these outputs