

Marketing Channel & Distribution

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Lecture 7



MGM204
PRINCIPLE OF MARKETING

CONTENT



1. The Nature and Importance of Marketing Channels

2. Channel levels

3. Channel Design Decisions

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1. The nature and importance of Marketing Channels

- **Marketing channel (distribution channel):** A set of interdependent organizations that help make a product or service available for use or consumption by the consumer or business user.
- **How channel Members add Value:** Producers use intermediaries because they create greater efficiency in making goods available to target markets. Through their contacts, experience, specialization, and scale of operation, intermediaries usually offer the firm more than it can achieve on its own.

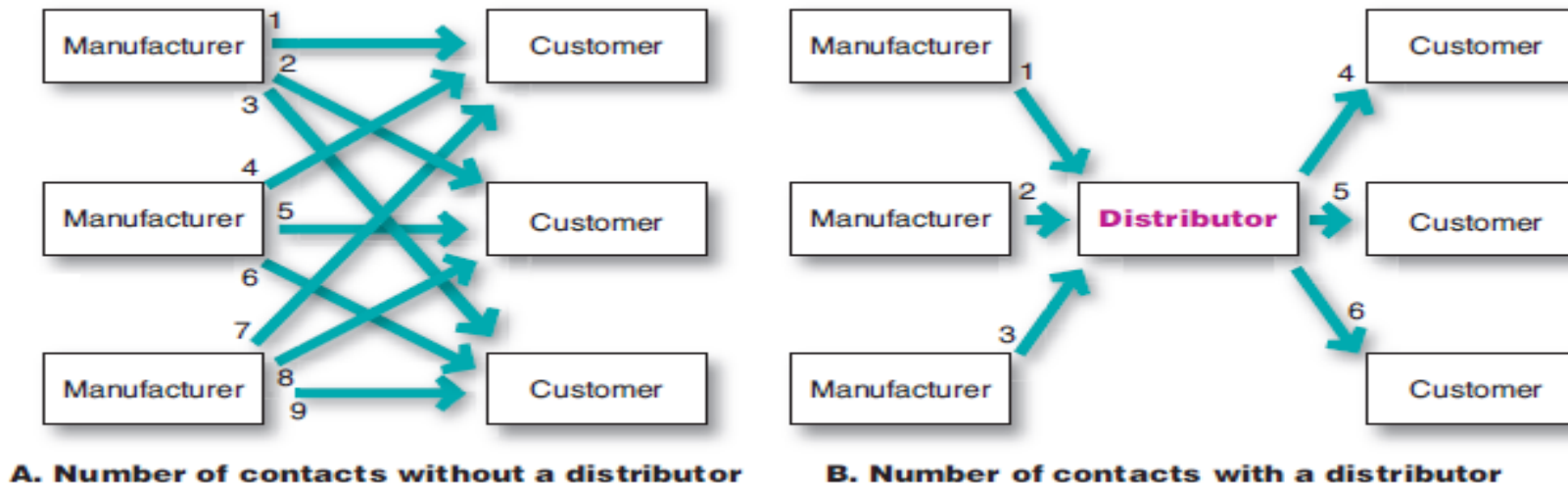


Adding Value through Distribution

- Intermediaries provide value to producers because they often have **expertise** in certain areas that producers do not have.
- Intermediaries are **experts in** displaying, merchandising, and providing convenient shopping locations and hours for customers.

Importance of Marketing Channels

1. They reduce the amount of work that must be done by both producers and consumers.



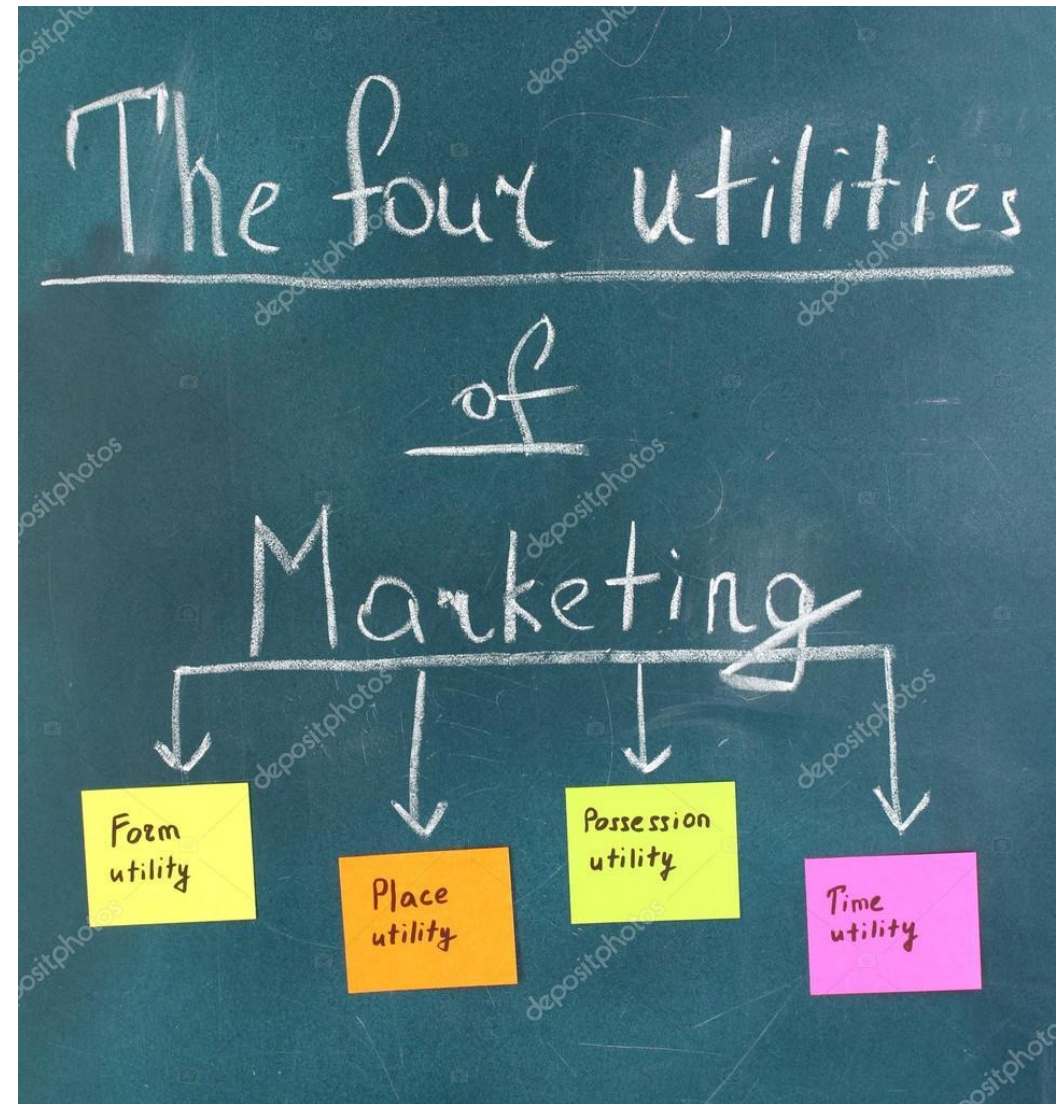
Importance of Marketing Channels

2. The role of marketing intermediaries is to transform the assortments of products made by producers into the assortments wanted by consumers. Producers make narrow assortments of products in large quantities, but consumers want broad assortments of products in small quantities. Marketing channel members buy large quantities from many producers and break them down into the smaller quantities and broader assortments desired by consumers.



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3. In making products and services available to consumers, channel members add value by bridging the major time, place, and possession gaps that separate goods and services from those who use them



4. Members of the marketing channel perform many key functions:

- **Information.** Gathering and distributing information about consumers, producers, and other actors and forces in the marketing environment needed for planning and aiding exchange.
- **Promotion.** Developing and spreading persuasive communications about an offer.
- **Contact.** Finding and engaging customers and prospective buyers.
- **Matching.** Shaping offers to meet the buyer's needs, including activities such as manufacturing, grading, assembling, and packaging.
- **Negotiation.** Reaching an agreement on price and other terms so that ownership or possession can be transferred.
- **Physical distribution.** Transporting and storing goods.
- **Financing.** Acquiring and using funds to cover the costs of the channel work.
- **Risk taking.** Assuming the risks of carrying out the channel work.

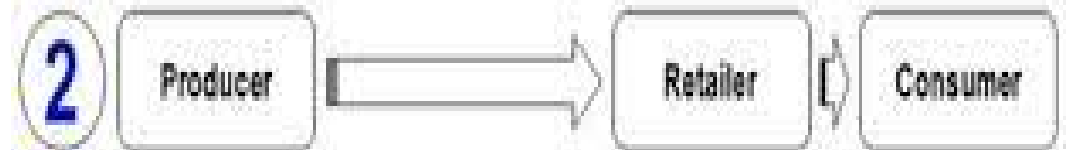
GOLDEN RULE OF DISTRIBUTION



**WE CAN ELIMINATE AN INTERMEDIARY
BUT WE CAN NOT ELIMINATE THE
FUNCTIONS HE PROVIDES.**

2. Channel levels

- **Channel level:** A layer of intermediaries that performs some work in bringing the product and its ownership closer to the final buyer.
- **Direct marketing channel:** A marketing channel that has no intermediary levels.
- **Indirect marketing channel:** A marketing channel containing one or more intermediary levels.

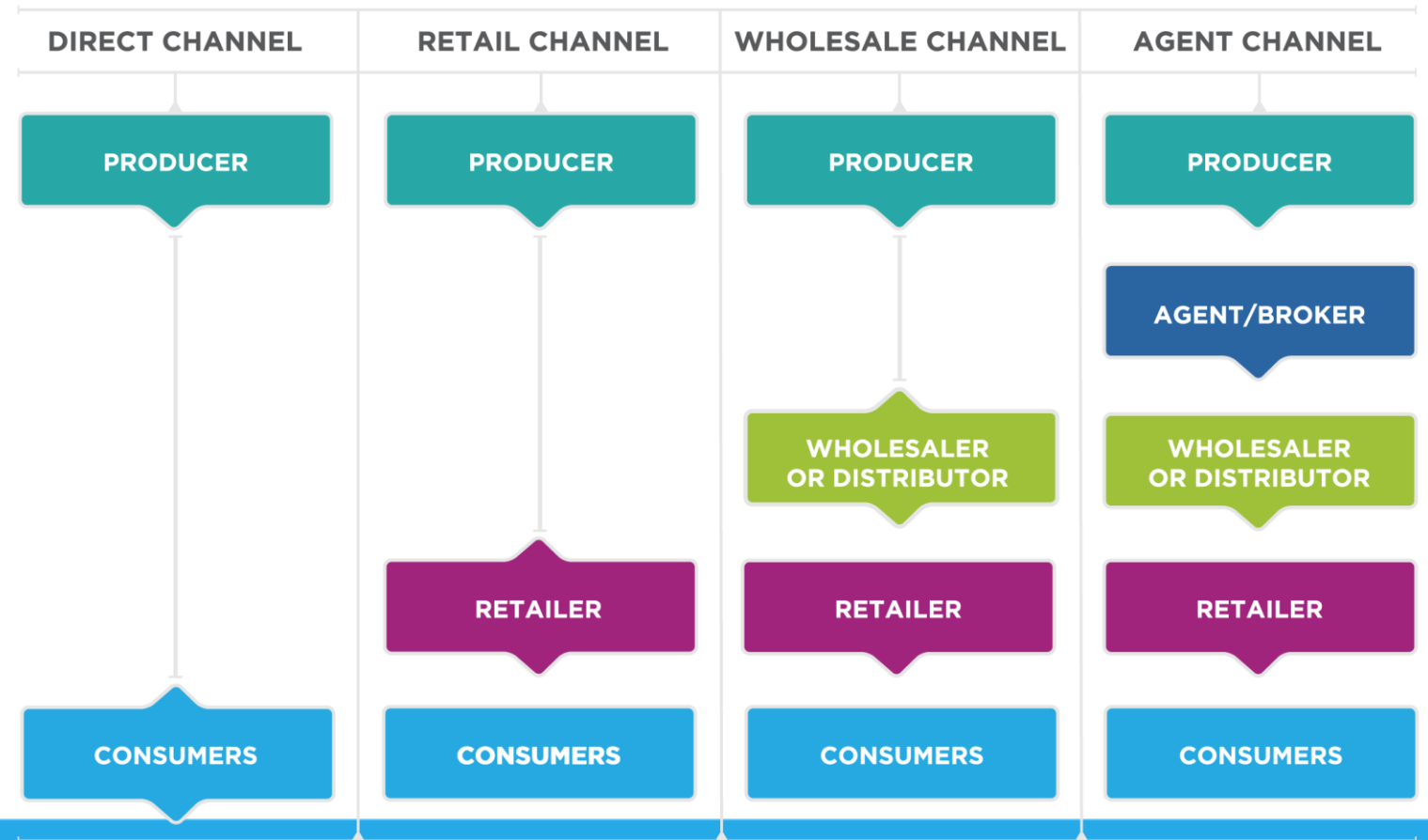


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Marketing Channels for Consumer Products

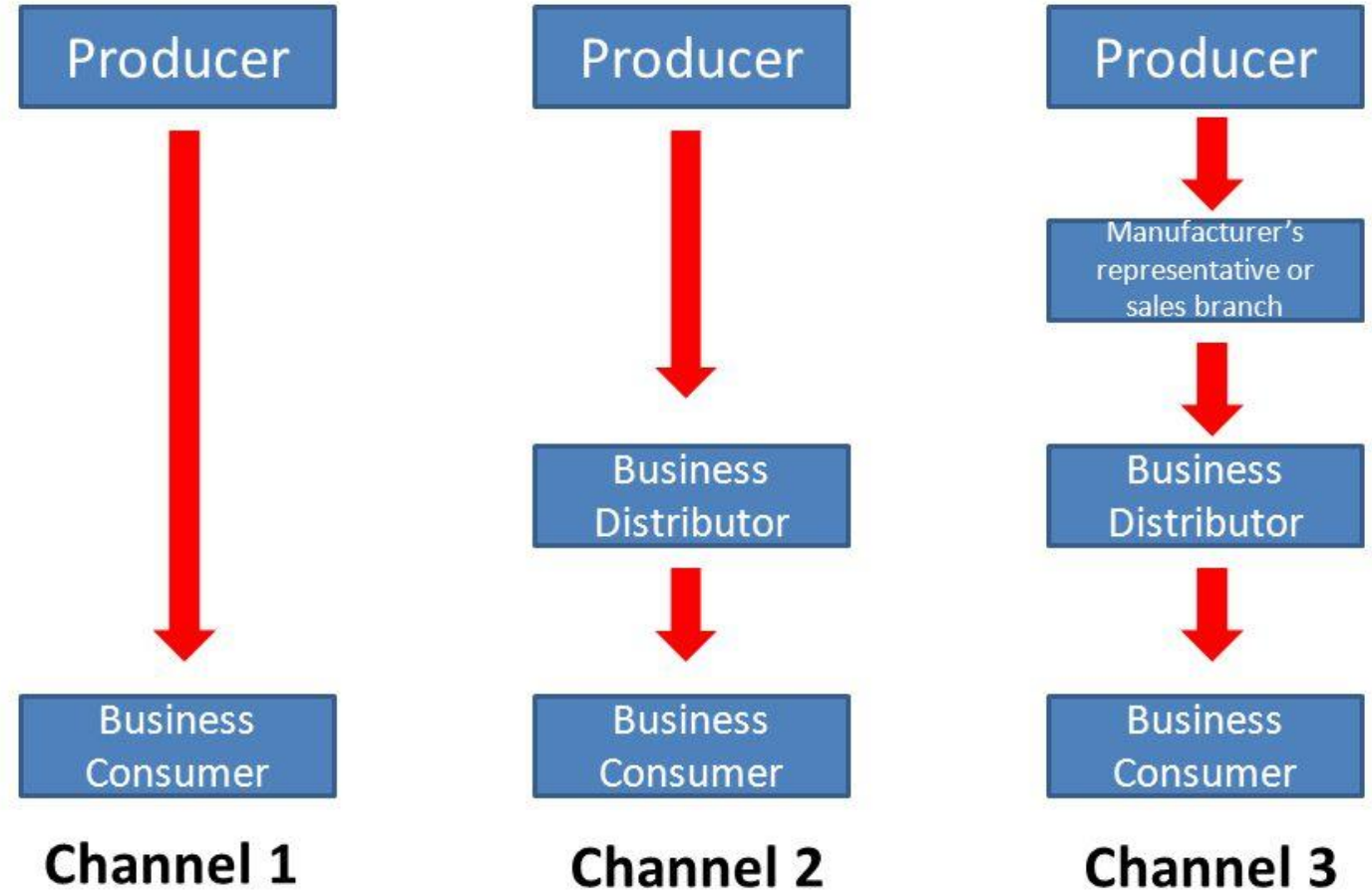
Consumer Marketing Channels

MARKETING CHANNELS FOR CONSUMER PRODUCTS



Business Marketing Channels

Business Marketing Channels

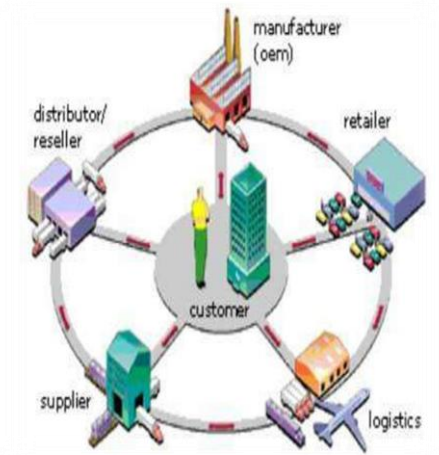


3. Channel Design Decisions

Channel Design: Designing effective marketing channels by analyzing customer needs, setting channel objectives, identifying major channel alternatives, and evaluating those alternatives.



3. Channel Design Decisions



1. Analyzing consumer needs:

- Designing marketing channel starts with finding out what target consumers want from the channel. (buy from nearby shops? buy in person, by phone, or online? Do they value breadth of assortment, or do they prefer specialization? Do consumers want many add-on services (delivery, installation, repairs), or will they obtain these services elsewhere?)
- The faster the delivery, the greater the assortment provided, and the more add-on services supplied, the greater the channel's service level.
- However, companies must balance consumer needs not only against the feasibility and costs of meeting these needs but also against customer price preferences.

3. Channel Design Decisions

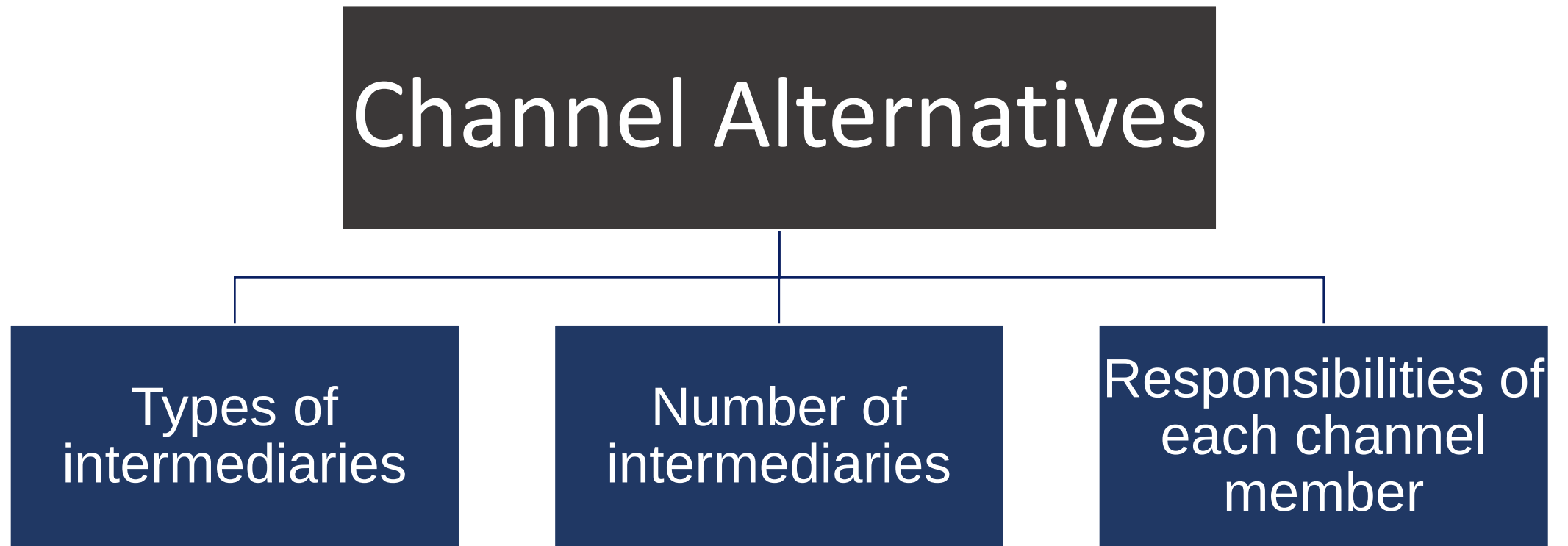
2. Setting channel objectives:

- Companies should state their marketing channel objectives in terms of targeted levels of customer service
- The company should decide which segments to serve and the best channels to use in each case. In each segment, the company wants to minimize the total channel cost of meeting customer service requirements.
- The company's channel objectives are also influenced by:
 - The nature of the company and its products (Exp: perishable products necessitate a short channel)
 - Its marketing intermediaries (which marketing functions it can have to intermediaries)
 - Its competitors (example: compete near or far from them)
 - The environment (economic conditions and legal constraint)



3. Channel Design Decisions

3. Identifying Major alternatives:



3. Channel Design Decisions

- **Types of intermediaries:** A firm should identify the types of channel members available to carry out its channel work.



3. Channel Design Decisions

- **Number of intermediaries:**
- **Intensive distribution:** Stocking the product in as many outlets as possible (Convenience products and common raw materials)
- **Selective distribution:** The use of more than one but fewer than all of the intermediaries that are willing to carry the company's products (Consumer electronics, furniture, and home appliance brands)
- **Exclusive distribution:** Giving a limited number of dealers the exclusive right to distribute the company's products in their territories (luxury brands).

3. Channel Design Decisions

- **Responsibilities of channel Members:**
 - The producer and intermediaries need to agree on the terms and responsibilities of each channel member.
 - They should agree on price policies, conditions of sale, territory rights, and the specific services to be performed by each party.
 - The producer should establish a list price and a fair set of discounts for the intermediaries.
 - It must define each channel member's territory, and it should be careful about where it places new resellers.

3. Channel Design Decisions

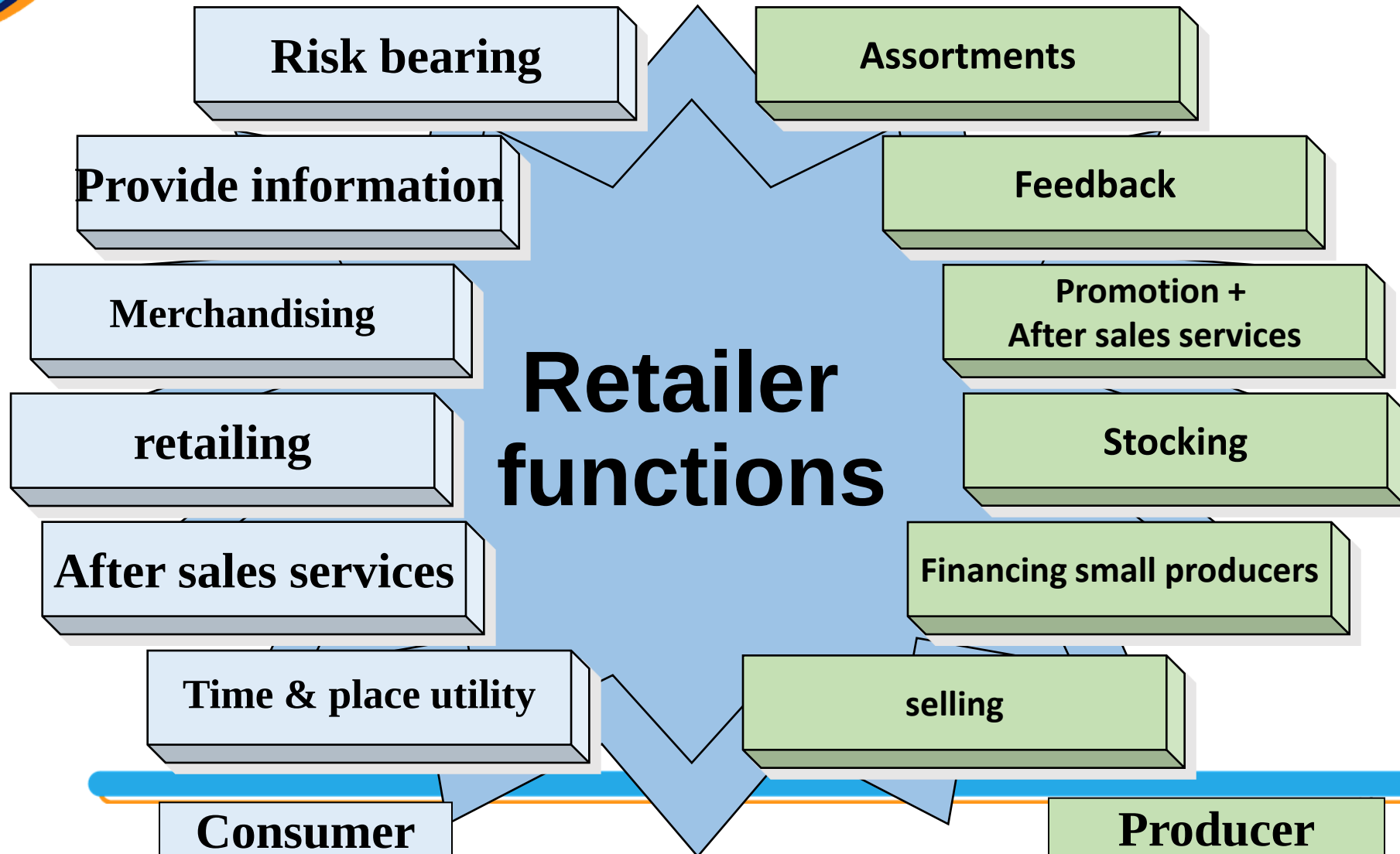
4. Evaluating the Major alternatives:

- Each alternative channel should be evaluated against 3 criteria:
 - **Economic:** sales, costs, and profitability
 - **Control:** To what extent company should give intermediaries control over the marketing of the product
 - **Adaptability:** long-term commitments vs. channel flexibility so that it can adapt to environmental changes

4. RETAILING

- **Retailing:** All the activities involved in selling products or services directly to final consumers for their personal, nonbusiness use.
- **Retailer:** A business whose sales come *primarily* from retailing.
- Retailers connect brands with consumers in **the final phases** of the buying process and at the point of purchase
- **Shopper marketing:** Focusing the entire marketing process on turning shoppers into buyers as they approach the point of sale, whether during in-store, online, or mobile shopping.
- Shopper marketing builds around what P&G calls the “First Moment of Truth”—the critical three to seven seconds that a shopper considers a product on a store shelf.
- Google defines a “zero moment of truth,” when consumers begin the buying process by searching for and learning about products online.

RETAILER MAIN FUNCTIONS





Type of retailers

4. RETAILING

Types of retailers:

- Retailers can be classified in terms of several characteristics:
 - the amount of service they offer
 - the breadth and depth of their product lines
 - the relative prices they charge
 - how they are organized.



Type of retailers: **Amount of service**

- **Self-service retailers:** serve customers who are willing to perform their own locate-compare-select process to save time or money (such as supermarkets).
- **Limited-service retailers:** provide more sales assistance because they carry more shopping goods about which customers need information. Their increased operating costs result in higher prices.
- **Full-service retailers:** such as high-end specialty and first-class department stores assist customers in every phase of the shopping process. They provide more services, which results in much higher operating costs. These higher costs are passed along to customers as higher prices.

Type of retailers: **Product Line**

- **Specialty store:** A retail store that carries a narrow product line with a deep assortment within that line.
- **Department store:** A retail store that carries a wide variety of product lines, each operated as a separate department managed by specialist buyers or merchandisers.
- **Supermarket:** A large, low-cost, low-margin, high volume, self-service store that carries a wide variety of grocery and household products.



Type of retailers: **Product Line**

- **Convenience store:** A small store, located near a residential area, that is open long hours may be seven days a week and carries a limited line of high-turnover convenience goods.
- **Superstore:** A store much larger than a regular supermarket that offers a large assortment of routinely purchased food products, nonfood items, and services.
- **Service retailer:** A retailer whose product line is actually a service; examples include hotels, airlines, banks, colleges, and many others.



Type of retailers: **Relative Prices**

- **Discount store:** A retail operation that sells standard merchandise at lower prices by accepting lower margins and selling at higher volume.
- **Off-price retailer:** A retailer that buys at less-than-regular wholesale prices and sells at less than retail (Exp. Factory outlets)



Type of retailers: **Organizational Approach**

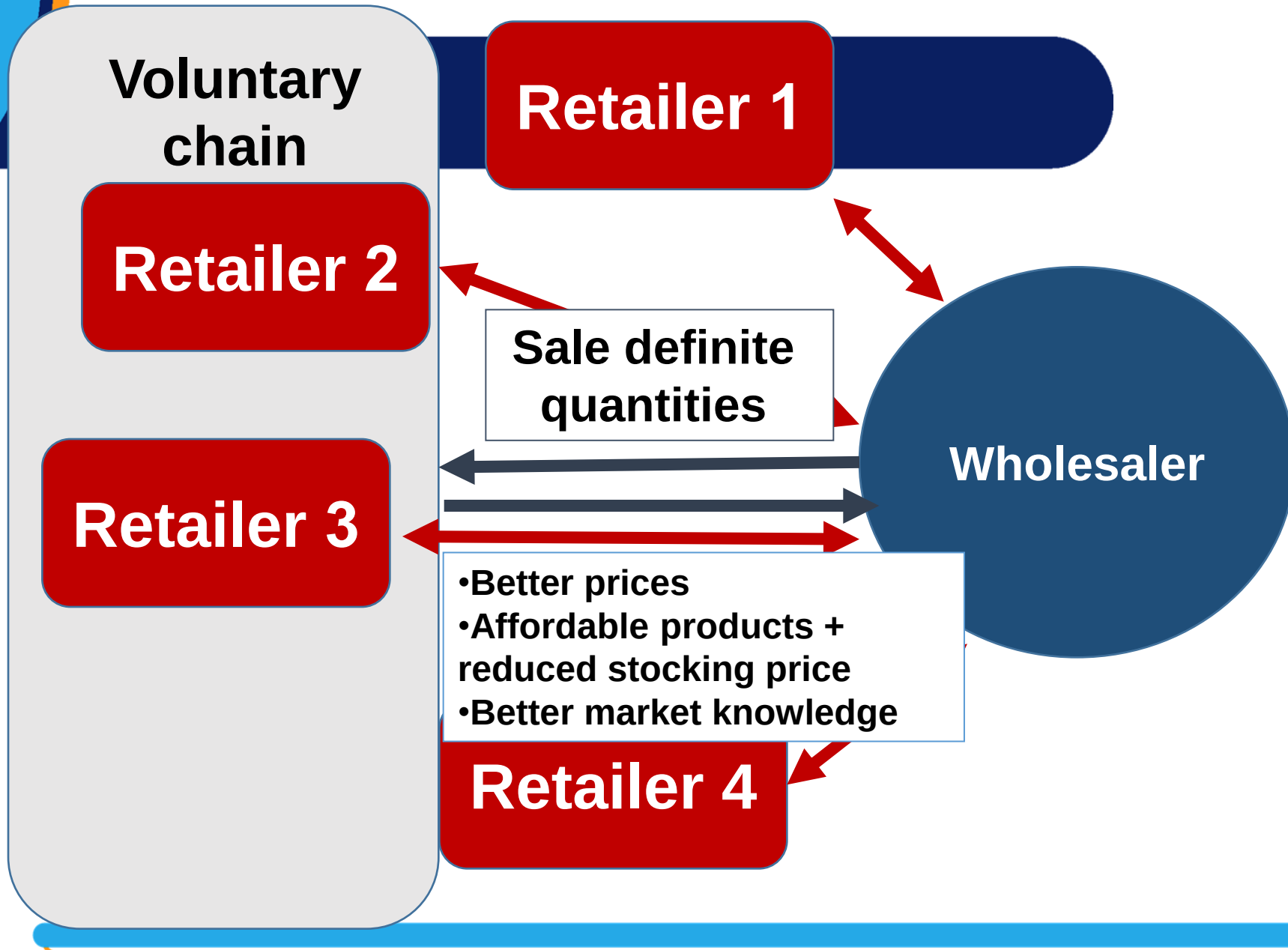
Major Types of Retail Organizations

Type	Description
Corporate chain	Two or more outlets that are commonly owned and controlled. Corporate chains appear in all types of retailing but they are strongest in department stores, discount stores, food stores, drugstores, and restaurants.
Voluntary chain	Wholesaler-sponsored group of independent retailers engaged in group buying and merchandising.
Retailer cooperative	Group of independent retailers who jointly establish a central buying organization and conduct joint promotion efforts.
Franchise organization	Contractual association between a franchisor (a manufacturer, wholesaler, or service organization) and franchisees (independent businesspeople who buy the right to own and operate one or more units in the franchise system).

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Corporate chain





RETAILER COOPERATIVE



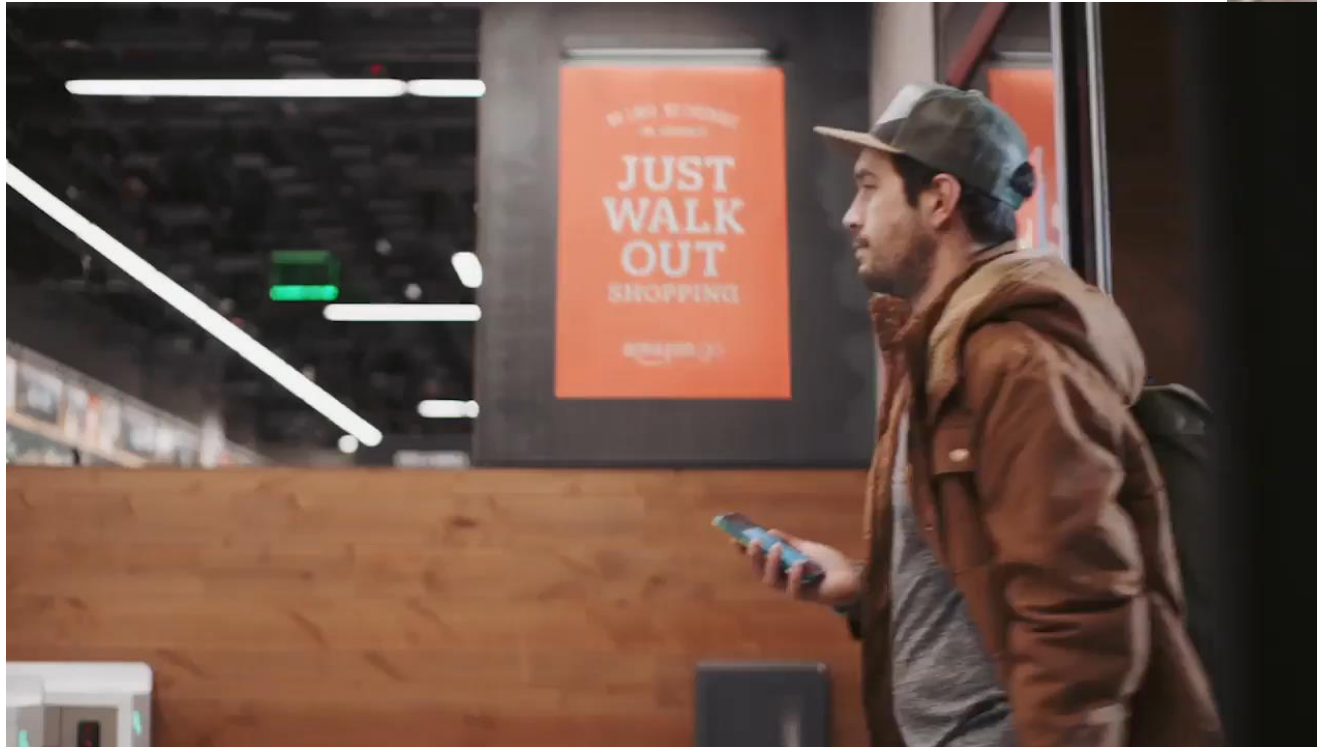
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FRANCHISE



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New forms of retailing



5. WHOLESALING

- **Wholesaling:** All the activities involved in selling goods and services to those buying for resale or business use.
- **Wholesaler:** A firm engaged *primarily* in wholesaling activities.



WHOLESALE FUNCTIONS

- ***Selling and promoting.*** Wholesalers' sales forces help manufacturers reach many small customers at a low cost. The wholesaler has more contacts and is often more trusted by the buyer than the distant manufacturer.
- ***Buying and assortment building.*** Wholesalers can select items and build assortments needed by their customers, thereby saving much work.
- ***Bulk breaking.*** Wholesalers save their customers money by buying in carload lots and breaking bulk (breaking large lots into small quantities).
- ***Warehousing.*** Wholesalers hold inventories, thereby reducing the inventory costs and risks of suppliers and customers

WHOLESALE FUNCTIONS

- ***Transportation.*** Wholesalers can provide quicker delivery to buyers because they are closer to buyers than are producers.
- ***Financing.*** Wholesalers finance their customers by giving credit, and they finance their suppliers by ordering early and paying bills on time.
- ***Risk bearing.*** Wholesalers absorb risk by taking title and bearing the cost of theft, damage, spoilage, and obsolescence.
- ***Market information.*** Wholesalers give information to suppliers and customers about competitors, new products, and price developments.
- ***Management services and advice.*** Wholesalers often help retailers train their salesclerks, improve store layouts and displays, and set up accounting and inventory control systems.



TYPES OF WHOLESALERS

- Three Major types of wholesalers:
 1. Merchant wholesalers
 2. Brokers and agents,
 3. Manufacturers' and retailers' branches and offices

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- **Merchant wholesaler:** An independently owned wholesale business that takes title to the merchandise it handles.
- **Broker:** A wholesaler who does not take title to goods and whose function is to bring buyers and sellers together and assist in negotiation.
- **Agent:** A wholesaler who represents buyers or sellers on a relatively permanent basis, performs only a few functions, and does not take title to goods.
- **Manufacturers' and retailers' branches and offices:** Wholesaling by sellers or buyers themselves rather than through independent wholesalers.





Thank You