

Marketing Channels and Supply Chain Management

Chapter 12

Learning Goals

- 1. Know why companies use distribution channels and understand the functions that these channels perform.**
- 2. Learn how channel members interact and how they organize to perform the work of the channel.**
- 3. Know the major channel alternatives that are open to a company.**
- 4. Comprehend how companies select, motivate, and evaluate channel members.**
- 5. Understand the nature and importance of marketing logistics and integrated supply chain management.**

Case Study Caterpillar

- **Dominates world's markets for heavy construction and mining equipment.**
 - **Independent dealers are key to success**
 - **Dealer network is linked via computers**
- **Caterpillar stresses dealer profitability, extraordinary dealer support, personal relationships, dealer performance and full, honest, and frequent communications**

Definitions

- **Value Delivery Network**
 - The network made up of the company, suppliers, distributors, and ultimately customers who “partner” with each other to improve the performance of the entire system.
- **Marketing channel**
 - Set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user

Nature & Importance of Marketing Channels

- **Channel choices affect other decisions in the marketing mix**
 - **Pricing, Marketing communications**
- **A strong distribution system can be a competitive advantage**
- **Channel decisions involve long-term commitments to other firms**

Nature & Importance of Marketing Channels

- **How Channel Members Add Value**
 - **Intermediaries require fewer contacts to move the product to the final purchaser.**
 - **Intermediaries help match product assortment demand with supply.**
 - **Intermediaries help bridge major time, place, and possession gaps that separate products from those who would use them.**

Nature & Importance of Marketing Channels

Key Functions Performed by Channel Members

- **Information**
- **Promotion**
- **Contact**
- **Matching**
- **Negotiation**
- **Physical Distribution**
- **Financing**
- **Risk taking**

Nature & Importance of Marketing Channels

- **Number of Channel Levels**
 - **The number of intermediary levels indicates the length of a marketing channel.**
 - **Direct Channels**
 - **Indirect Channels**
 - **Producers lose more control and face greater channel complexity as additional channel levels are added.**

Nature & Importance of Marketing Channels

Channel Members Are Connected Via A Variety of Flows

- **Physical Flow**
- **Information Flow**
- **Payment Flow**
- **Promotion Flow**
- **Flow of Ownership**

Channel Behavior and Organization

- **Channel Conflict**
 - **Occurs when channel members disagree on roles, activities, or rewards.**
 - **Types of Conflict:**
 - **Horizontal conflict: occurs among firms at the same channel level**
 - **Vertical conflict: occurs among firms at different channel levels**

Channel Behavior and Organization

- **Conventional Distribution Channels**
 - Consists of one or more independent channel members
 - Lack leadership and power
 - Often result in poor performance
- **Vertical Marketing Systems**
 - Consists of members acting as a unified system
 - Use contracts, ownership or power

Channel Behavior and Organization

Vertical Marketing Systems

- **Corporate VMS**
- **Contractual VMS**
- **Administered VMS**

- **Corporation owns production and distribution**
- **Coordination and conflict through regular organizational channels**

Channel Behavior and Organization

Vertical Marketing Systems

- Corporate VMS
- **Contractual VMS**
- Administered VMS

- **Individual firms who join through contracts**
- **Franchise organizations**
 - **Manufacturer-sponsored retailer franchise system**
 - **Manufacturer-sponsored wholesaler franchise system**
 - **Service-firm-sponsored retailer franchise system**

Channel Behavior and Organization

Vertical Marketing Systems

- Corporate VMS
- Contractual VMS
- **Administered VMS**

- **Leadership through the size and power of dominant channel members**
- **Leadership could be manufacturer or retailer**

Channel Behavior and Organization

- **Horizontal Marketing Systems**
 - Companies at the same level work together with channel members
- **Multichannel Distribution Systems**
 - Also called hybrid marketing channels
 - Occurs when a firm uses two or more marketing channels
- **Changing Channel Organization**
 - Disintermediation

Channel Design Decisions

- **Step 1: Analyzing Consumer Needs**
 - **Cost and feasibility of meeting needs must be considered**
- **Step 2: Setting Channel Objectives**
 - **Set channel objectives in terms of targeted level of customer service**
 - **Many factors influence channel objectives**

Channel Design Decisions

- **Step 3: Identifying Major Alternatives**
 - **Types of intermediaries**
 - **Company sales force, manufacturer's agency, industrial distributors**
 - **Number of marketing intermediaries**
 - **Intensive, selective, and exclusive distribution**
 - **Responsibilities of channel members**

Channel Design Decisions

- **Step 4: Evaluating Major Alternatives**
 - **Economic criteria**
 - **Control issues**
 - **Adaptive criteria**

Channel Design Decisions

- **Designing International Distribution Channels**
 - **Global marketers usually adapt their channel strategies to structures that exist within foreign countries**
 - **Key challenges:**
 - **May be complex or hard to penetrate**
 - **May be scattered, inefficient, or totally lacking**

Channel Management Decisions

- **Selecting Channel Members**
 - Identify characteristics that distinguish the best channel members
- **Managing and Motivating Channel Members**
 - Partner relationship management (PRM) is key
- **Evaluating Channel Members**
 - Performance should be checked against standards
 - Channel members should be rewarded or replaced as dictated by performance

Channel Management Decisions

Decisions

- *Selecting channel members*
 - *Managing and motivating channel members*
 - *Evaluating channel members*
- **Which characteristics are important?**
 - Years in business
 - Lines carried
 - Growth and profit record
 - Cooperativeness and reputation
 - Type of customer
 - location

Channel Management Decisions

Decisions

- *Selecting channel members*
 - *Managing and motivating channel members*
 - *Evaluating channel members*
- **Partner relationship management (PRM) for long-term partnerships**
 - **Software available to coordinate members**

Channel Management Decisions

Decisions

- *Selecting channel members*
- *Managing and motivating channel members*
- *Evaluating channel members*

- **Check channel performance of:**
 - **Sales**
 - **Inventory**
 - **Customer delivery**
 - **Promotion and training**
 - **Customer service**

Public Policy and Distribution Decisions

- **Exclusive distribution**
 - Only certain outlets are allowed to carry a firm's products
- **Exclusive dealing**
 - Exclusive territorial agreements
 - Tying agreements

Marketing Logistics and Supply Chain Management

- **Marketing Logistics**
 - **Outbound distribution**
 - **Inbound distribution**
 - **Reverse distribution**
 - **Involves the entire supply chain management system**

Marketing Logistics and Supply Chain Management

- **Why Greater Emphasis is Being Placed on Logistics:**
 - **Offers firms a competitive advantage**
 - **Can yield cost savings**
 - **Greater product variety requires improved logistics**
 - **Improvements in distribution efficiency are possible due to information technology**

Marketing Logistics and Supply Chain Management

- **Goals of the Logistics System**
 - **No system can both maximize customer service and minimize costs.**
 - **Firms must first weigh the benefits of higher service against the costs.**
 - **State goals in terms of a targeted level of customer service at the least cost.**

Marketing Logistics and Supply Chain Management

- **Major Logistics Functions**
 - **Warehousing**
 - **Inventory Management**
 - **Transportation**
 - **Logistics Information Management**

Marketing Logistics and Supply Chain Management

Transportation Carrier Options

- **Truck**
- **Rail**
- **Water**
- **Pipeline**
- **Air**
- **Internet**

Intermodal transportation is becoming more common

Marketing Logistics and Supply Chain Management

- **Integrated Logistics Management**
 - **Cross-functional teamwork inside the company is critical**
 - **Logistics partnerships are also built through shared projects**
 - **Outsourcing of logistics firms to third-party firms is becoming more common**