

Marketing Channels and Supply Chain Management

Chapter 13

Objectives

- Know why companies use distribution channels and understand the functions that these channels perform.
- Learn how channel members interact and how they organize to perform the work of the channel.
- Know the major channel alternatives that are open to a company.

Objectives

- Comprehend how companies select, motivate, and evaluate channel members.
- 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

Definition

- **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.

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

- **Vertical Marketing Systems**
 - Corporate VMS
 - Contractual VMS
 - ❖ *Manufacturer-sponsored retailer franchise system*
 - ❖ *Manufacturer-sponsored wholesaler franchise system*
 - ❖ *Service-firm-sponsored retailer franchise system*
 - Administered VMS

Channel Behavior and Organization

- **Multichannel Distribution Systems**
 - Also called hybrid marketing channels
 - Occurs when a firm uses two or more marketing channels
 - Hybrid marketing has many advantages
- **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

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