

PLACE:  
Distribution Channels

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**Historical Perspectives on Marketing**

- ✦ Plato: "In well-ordered states, the storekeepers and salesmen are commonly those who are weakest in bodily strength and therefore of little use for any other purpose."
- ✦ Cicero: "Merchants are those who are to be accounted vulgar; for they can make no profit except by a certain amount of falsehood."
- ✦ Veblen: "Advertising is absentee salesmanship and is a meretricious endeavor in which psychological appeals to "Fear" and "Shame" are developed to bamboozle the public into purchasing essentially worthless package goods at bloated prices."
- ✦ Karl Marx: "To believe that a coat is worth less than \$5 as long as it remains in the hands of the tailor, but that its value rises to \$5 when I take possession of it is ridiculous. Already in the minute when the commodity is finished, it must be worth as much as the consumer pays for it in the end."

**What is a Distribution Channel?**

- ✦ A set of interdependent organizations (intermediaries) involved in the process of making a product or service available for use or consumption by the consumer or business user.
- ✦ Marketing Channel decisions are among the most important decisions that management faces and will directly affect every other marketing decision.

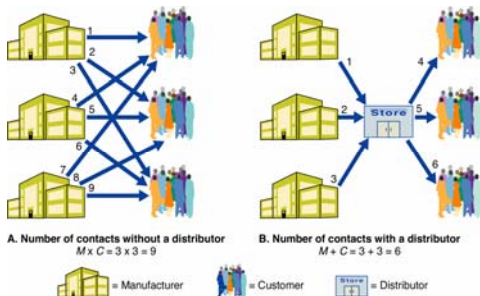
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**Why are Marketing Intermediaries Used?**

- ✦ The use of intermediaries results from their greater efficiency in making goods available to target markets.
- ✦ Offer the firm more than it can achieve on it's own through the intermediaries:
  - **Contacts,**
  - **Experience,**
  - **Specialization,**
  - **Scale of operation.**
- ✦ Purpose: match supply from producers to demand from consumers.

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**How a Marketing Intermediary Reduces the Number of Channel Transactions**



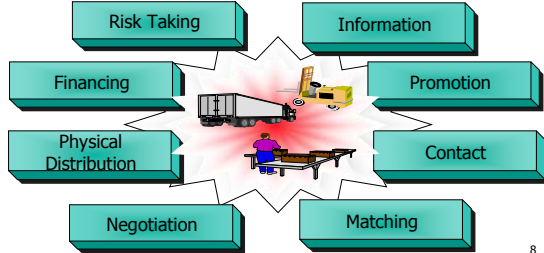
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**Channel Members**

- ✦ *Direct Sales Force*
- ✦ *Distributors:* Purchase goods from suppliers, take title and assume risks of ownership and sell goods to end-users or other resellers (*Wholesalers*). Economies of Scope
- ✦ *Captive Distributors*
- ✦ *Agents:* Similar to distributors but do not take title and work on commissions (Manufacturer Rep). Carry fewer product lines.
- ✦ *Brokers:* Similar to agents but carry a large number of suppliers for shorter periods (Agricultural commodities and used equipment).
- ✦ *Retailers*

## Distribution Channel Functions

These Functions Should be Assigned to the Channel Member Who Can Perform Them Most Efficiently and Effectively to Provide Satisfactory Assortments of Goods and Services to Target Customers.



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## Consumer Benefits from Intermediaries

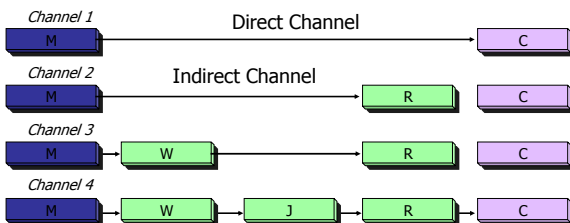
By performing these functions, intermediaries create value for consumers and benefit producers through the four utilities:

- **Time utility**—having a product or serviced when you want it.
- **Place utility**—having a product or service where you want it.
- **Form utility**—having a product or service in the form you want it by, for example, enhancing it to make it more appealing to buyers.
- **Possession utility**—helping buyers to take possession of a product or service.

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## Number of Channel Levels

Channel Level - Each Layer of Marketing Intermediaries that Perform Some Work in Bringing the Product and its Ownership Closer to the Final Buyer.



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## Consumer Marketing Channels

### 0-level channel



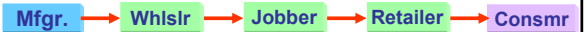
### 1-level channel



### 2-level channel



### 3-level channel



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## Channel Behavior & Conflict

- ✦ The channel will be most effective when:
  - each member is assigned tasks it can do best.
  - all members cooperate to attain overall channel goals and satisfy the target market.
- ✦ When this doesn't happen, conflict occurs:
  - **Horizontal Conflict** occurs among firms at the same level of the channel, i.e. retailer to retailer.
  - **Vertical Conflict** occurs between different levels of the same channel, i.e. wholesaler to retailer.
- ✦ For the channel to perform well, each channel member's role must be specified and conflict must be managed.

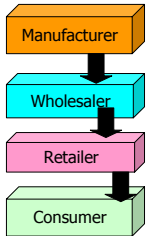
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## Causes of Conflict

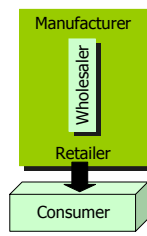
- ✦ Goal Incompatibility
  - Manufacturer wants to achieve rapid market growth via lower prices; retailer interested in large margins
- ✦ Unclear roles and rights
  - Territory boundaries, who gets credit for sale
- ✦ Differences in perception
  - Optimistic manufacturer, pessimistic retailer
- ✦ Level of dependence
  - Of retailer on manufacturer or vice-versa

## Conventional Marketing Channel Vs. a Vertical Marketing System

### Conventional Marketing Channel



### Vertical Marketing System



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## Vertical Marketing Systems (VMS)

- ✦ Conventional Channels
  - Independent producer, wholesaler and retailer
  - Double marginalization problems
- ✦ VMS
  - Producer, wholesaler and retailer act as a unified system
    - Corporate VMS: Vertical Integration
    - Administered VMS: Co-ordination through power of one player (e.g., P&G)
    - Contractual VMS: Franchising

## Types of Vertical Marketing Systems

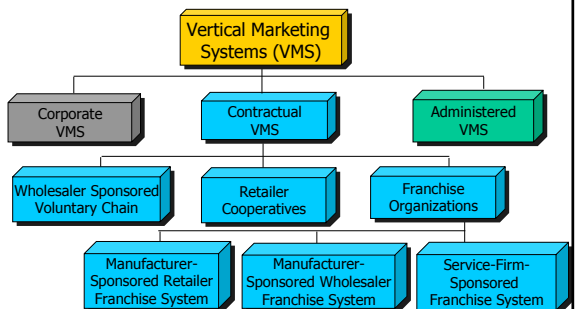


Degree of Direct Control



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## Types of Vertical Marketing Systems



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## Innovations in Marketing Systems

### Horizontal Marketing System

Two or More Companies at One Channel Level Join Together to Follow a New Marketing Opportunity.

- Each company individually lacks the capital, know-how, production or marketing resources to go it alone
- Example:
  - Airline companies: British & American; Lufthansa & United; KLM & Northwest
  - Banks in Grocery Stores

### Hybrid Marketing System

A Single Firm Sets Up Two or More Marketing Channels to Reach One or More Customer Segments.

- Example:  
Retailers, Catalogs, and Sales Force  
Tupperware

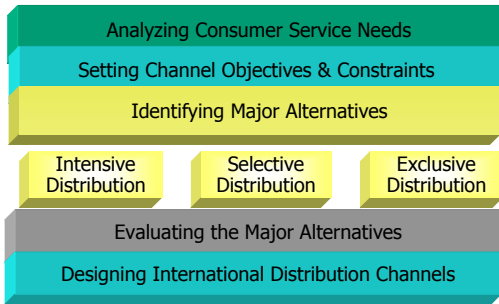
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## Changing Channel Organization

A Major Trend is Toward Disintermediation Which Means that Product and Service Producers are Bypassing Intermediaries and Going Directly to Final Buyers or That New Types of Channel Intermediaries are Emerging to Displace Traditional Ones.

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## Channel Design Decisions



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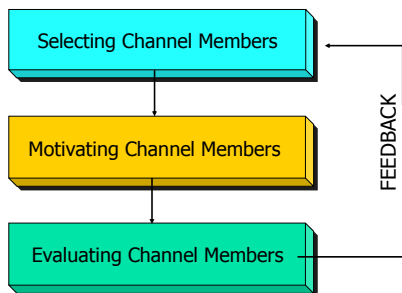
## Channel Breadth

✦ The channel breadth decision concerns the degree of exposure the firms desires for the product.

- a) **Intensive Distribution** - selling a product through all responsible and suitable wholesalers or retailers who will stock or sell the product.
  - Convenience goods
- b) **Exclusive Distribution** - selling through only one distributor in a specific geographic area
  - Specialty goods
- c) **Selective Distribution** - an intermediate form in which producers sell to more than one but still a limited number of distributors.
  - Shopping and some specialty goods.

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## Channel Management Decisions



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## Go-to-Market Systems

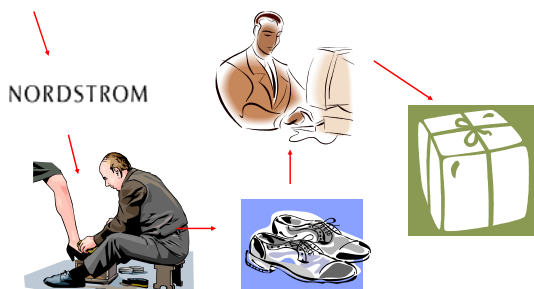
### Captive Channel

- Contain customers by offering a complete buying experience
- Bind activities together

### Open Channel

- Allow customers to pick and choose add-ons of products/services freely
- Unbundled offerings

## Shoes: A Scenario



## Buying Behaviors

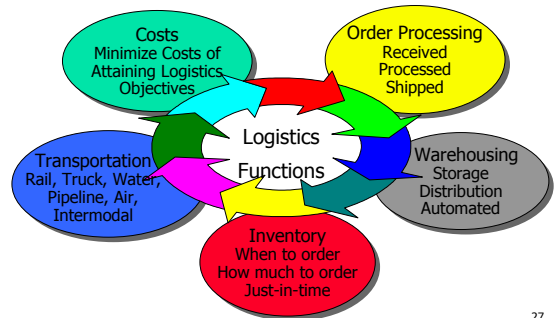
- **3 Major Points**
  - Different people exhibit different buying behaviors
  - Behaviors vary depending on the product and/or circumstance
  - Different channels are exploited at certain stages of the buying process
- Effective channel design must acknowledge these points.

## Nature and Importance of Marketing Logistics

- ✦ 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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## Major Logistics Functions



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## Review of Concepts

- ✦ Explain why companies use distribution channels and discuss three functions these channels perform.
- ✦ Discuss how channel members interact and how they organize to perform the work of the channel.
- ✦ Identify the major channel alternatives open to a company.
- ✦ Discuss the nature and importance of physical distribution.
- ✦ Analyze integrated logistics, including how it may be achieved and its benefits to the company.

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