Distribution Channels

Consumer Channels and the Internet

Marketing channels are sets of interdependent organizations that make product or services available for purchase, consumption, use

Traditional Distribution System

Intermediaries

Producer 🡪 Warehouse 🡪 Wholesalers 🡪 Retailers 🡪 Consumer

Facilitators

Indirect Channels

Direct Channels

Make or Buy

Should companies rely on intermediaries for distribution (indirect) or should they do it themselves (direct)?

Channel Functions

Breaking bulk and creating assortments

Physical possession and transportation

Title or ownership transfer

Promotion

Ordering

Financing / Risk taking

Payment

Internet Impacts on Channel Services (Fig 14.4)

Channel Services Consumer’s Desired Level

Information (Non Tactile) High <- - - - - - - - - - - - - - - - - - -> Low

Information (Tactile) Low <- - - - - - - - - - - - - - - - - - -> High

Price Sensitivity High <- - - - - - - - - - - - - - - - - - -> Low

Price Sensitivity for Shipping Costs Low <- - - - - - - - - - - - - - - - - - -> High

Assortment Not Important <- - - - - - - - - - - - > Important

Customization Important <- - - - - - - - - - - - - - - > Not Important

Customization (Availability) Not Critical <- - - - - - - - - - - - - -> Critical

Favors Direct Favors Indirect

Why Sell Directly Online?

Meet consumer needs

Assortment & inventory issues

Customization

Expand into a new profit pool

Complimentary products or services. Ex. Car & auto loan.

Getting closer to the end users

More info about the end users

Hedge against uncertainty

Prepare for any breakdown in the distribution chain.

Prepare for opportunities

Expanding Markets

New domestic and international locations

Any added costs?

Versioning

Different versions at different price points

Selling the long tail

Large assortment in online channels

Profits from less popular items

Death of the Middleman?

Are middleman facing elimination?

Functions of middlemen / What value do middlemen add to the process?

Economy of scale

Product characteristics

Channel conflict

Case Study:

eBay drop-off stores

Ex. Cash It In, QuickDrop, AuctionDrop

What functions do they serve?

Will they succeed?

Channel Conflict

Conflict b/w the direct channel and pre-existing indirect channels is a major concern.

Why is there conflict?

What can angry channel partners do?

Retail channels

Physical stores

Catalog, TV

Web

Multichannel Approach

Conduct different aspects of purchasing/sales & marketing activities in different sales channels

Purchasing activities

Acquire & evaluating product and service information

Same products

Compare products

Look for opinions and advice

Make a transaction

Sales and marketing activities

Provide product & service information

Promote products

Provide customer services

Collect customer information

Support transactions

Support communication between customers

Examples?

Walmart

Order online, pick up in store

“Sixty percent of customers who order on Walmart.com and pick up items in the local store purchase an additional $60 worth of goods at the store.”

Ace

65% of orders on Ace.com being picked up at local stores

From Click to Brick, too

Ex

Clothing: athlete, Piperlime, Boston Proper, Bonobos, Frank & Oak

Jewelry: Baublebar

Eyewear: Warby Parker

Footwear: JustFab

Rental: Rent the runway

Computer: Dell

Advantages of Multichannel Approach

What are the advantages of multichannel approach for retailers?

Customer acquisition

Customer retention

Issues of Multichannel Distribution

Assortment

What products on which channel?

Are online stores always carry more products than their offline counterparts?

Pricing

The issue of zone pricing

Promotion

Uniformed promotion may be difficult

Reward

Direct or Not? (Fig. 14.10)

Go it Alone / Co-opetition Hybrid

Computer-Dell Travel & Tickets Cosmetics-Avon

Insurance-Geico Orbitz Insurance-Allstate

Furniture-Ethan allan

Specific Capability/Hedging No Direct Sales

Custom shoes-Nike.com Food-Hormel

Printers-HP Shopping Village Laundry detergent-Proctor & Gamble (Tide)