CHAPTER 14: DESIGNING AND MANAGING INTEGRATED MARKETING CHANNELS

Marketing Channels are sets of interdependent organizations participating in the process of making a product or service available for use or consumption.

Types/categories of marketing channels or intermediaries

Merchants: Merchants such as wholesalers and retailers buy, take title to, and resell the merchandise.

Agents: Agents such as brokers, manufacturers’ representatives, sales agents search for customers and may negotiate on the producer’s behalf but do not take title to the goods

Facilitators: Facilitators such as transportation companies, independent warehouses, banks, advertising agencies assist in the distribution process but neither take title to goods nor negotiate purchases or sales.

Push strategy

A push strategy uses the manufacturer's sales force, trade promotion money, or other means to induce intermediaries to carry, promote, and sell the product to end users.

- Brand loyalty is low
- Brand choice is made at store.
- Product is an impulse item.
- Product benefits are well understood.

Pull strategy

In a pull strategy the manufacturer uses advertising, promotion, and other forms of communication to persuade consumers to demand the product from intermediaries, thus inducing the intermediaries to order it.

- Brand loyalty is high.
- High involvement product.
- Consumers are able to perceive differences between brands.
- Brand selection prior to purchase.

The Role Of Marketing Channel

A marketing channel performs the work of moving goods from producers to consumers. It overcomes the time, place, and possession gaps that separate goods and services from those who need or want them.

Channel member functions

- Gather information about potential & current customers, competitors & other actors & forces in the marketing environment.

- Develop & disseminate presuasive communication to stimulate purchasing.

- Negotiate & reach agreements on price & other terms so that transfer of ownership or possession can be affected.

- Place orders with manufacturers.

- Acquire the funds to finance inventories at different levels in the marketing channel.

- Assume risks connected with carrying out channel work.

- Provide for the successive storage & movement of physical products

- Provide for buyers payment of their bills through banks & other financial institutions. Oversee actual transfer of ownership from one organization or person to another.

Forward flow functions:

– From company to customers

– Develop / disseminate communication

– Store and move the physical products

– Oversee transfer of ownership

Backward flow functions:

– From customers to company

– Place orders with manufacturers

– Facilitate payment of bills

Forward and backward flow functions:

– Gather information

– Negotiate price and transfer of ownership

– Finance inventories

– Assume risk

Channel levels

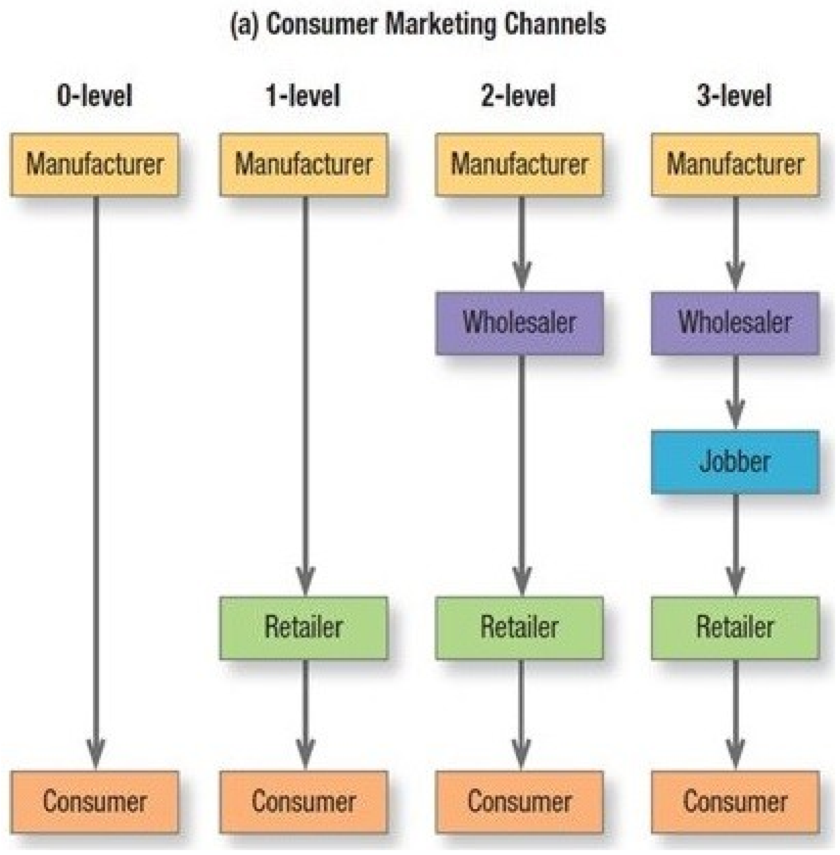
Consumer marketing channels

Zero-level channel: also called a direct marketing channel, consists of a manufacturer selling directly to the final customer. Examples are door-to-door sales, mail order, telemarketing ,etc.

One-level channel: contains one selling intermediary, such as a retailer.

Two-level channel: contains two intermediaries such as a wholesaler and a retailer.

Three-level channel: contains three intermediaries. wholesalers sell to jobbers (essentially small-scale wholesalers) who sell to small retailers.



Industrial marketing channels

An industrial-goods manufacturer can use its sales force to sell directly to industrial customers, or it can sell to industrial distributors who sell to industrial customers.

It also sell through manufacturer's representatives or it's own sales branches directly or indirectly to industrial customers through industrial distributors.

Reverse flow channels

Reverse-flow channels are important:

- To reuse of products or containers
- To refurbish the products for resale
- To recycle the products
- To disposal of products and packaging.

Reverse-flow intermediaries include manufacturers' redemption centers, community groups, trash-collection specialists, recycling centers, trash-recycling brokers, and central processing warehousing

Channel-Design Decisions

Channel-Design Decisions Designing a marketing channel requires:-

1. Analyzing customer needs and wants.
2. Establishing channel objectives and constraints.
3. Identifying Major Channel alternatives.
4. Evaluating major channel alternatives.

1) Analyzing customer needs and wants.

The marketer must understand the service output levels desired by the target customer.

Channel produce five service outputs:

Lot Size - the number of units the channel permits a typical customer to purchase on one occasion.

Waiting And Delivery Time - the average time customers wait for receipt of goods. costumer increasingly prefer faster delivery channels.

Spatial Convenience - the degree to which the marketing channel makes it easy for customers to purchase the product.

Product Variety - The assortment provided by the marketing channel. Customer prefer a greater variety because more choices increases the chance of finding what they want, also many choice creates a negative effect.

Service Backup - add on services (Credit, delivery, installation, repairs) provided by the channel. the greater the service backup, the greater the work provided by the channel.

2) Establishing channel objectives and constraints.

Marketers should state their channel objectives in terms of service output levels and associated cost and support levels.

Channel objectives vary with product characteristics:-

1. Perishable products
2. Bulky products - channels that minimize shipping distance and amount of handling.
3. Custom built machinery – are sold directly by company sales representatives.
4. Products requiring installations and regular check ups – company owned or leased franchisees.

3) Identifying Major Channel alternatives

Channel alternatives differ in three ways:

A) Types of intermediaries

Agents, Wholesalers, company stores, online retailers, other retailers, etc.

B) Number of Intermediaries

C) Terms and responsibilities of channel members

B) Number of intermediaries

Three strategies based on number of intermediaries are exclusive distribution, selective distribution and intensive distribution.

a) Exclusive distribution

Means severely limiting the number of intermediaries

In an exclusive distribution approach, a manufacturer chooses to deal with one intermediary or one type of intermediary in a certain geographical area. Usually there will be an agreement between a distributor and a manufacturer that the manufacturer will not sell the product to anyone else and will sell it only to the exclusive distributor. At the same time, even the exclusive distributor has to enter the agreement that he/she will only sell the products of the manufacturers exclusively and will not sell those of the competition.

Can be used for the distribution of automobiles (especially luxury automobiles), luxurious products, etc.

b) Selective distribution

selective distribution is a distribution approach where selective and few outlets are chose through which the product is made available to the customers.

Eg - for television, furniture, etc

c) Intensive distribution

Sale of products through as many outlets as possible.

Eg- for soft drinks, toothpastes, soaps, etc.

C) Terms and Responsibilities of Channel Members.

Each channel member must be treated respectfully and given the opportunity to be profitable.

The main elements in this regard are:

– **Price policy:** calls for the producer to establish a price list and schedule of discounts and allowances that intermediaries see as equitable and sufficient.

– **Conditions of sale:** refers to payment terms and producer guarantees. Most producers grant cash discounts to distributors for early payment. They might also offer a guarantee against defective merchandise or price declines, creating an incentive to buy larger quantities.

– **Distributors' territorial rights:** define the distributors' territories and the terms under which the producer will enfranchise other distributors.

– **Mutual services and responsibilities:** must be carefully spelled out, especially in franchised and exclusive-agency channels. Eg – between McDonalds and its franchisee firms.

4) Evaluating major channel alternatives

Each channel alternative needs to be evaluated against economic, control & adaptive criteria.

- Economic Criteria:- Each channel alternative will produce a different level of sales & costs.
- Control & Adaptive Criteria:- Using a sales agency can pose a control problem. Agents may concentrate on the customers who buy the most, not necessarily those who buy the manufacturer's goods. They might not master the technical details of the company's product or handle its promotion materials effectively.

Commitment between the various channel members, between the channel members and the manufacturers is important for the success of any distribution channel.

Channel Management Decisions

- Selecting channel members
- Training and motivating channel members
- Evaluating channel members
- Modifying channel design and arrangements
- Global Channel Considerations

Selecting channel members

To select the appropriate channel members, producers should determine what characteristics distinguish the better intermediaries such as:

– number of years in business

– other lines carried, growth

– profit record

– financial strength

– Cooperativeness

– service reputation

Training and Motivating Channel Members.

Carefully implemented training, market research, and other capability-building programs can motivate and improve intermediaries’ performance. The company must constantly communicate the importance of intermediaries in a joint effort to satisfy end users of the product.

Channel power

The channel power is the ability member to alter or modify the behavior of other members in the distribution channel, due to its relatively strong position in the market.

Coercive Power: The manufacturer threatens to terminate the relationship with other channel partners or withdraw the resources deployed with them. With this power, the manufacturer can dominate the others and keep them under his control.

Reward Power: The manufacturer provides several additional benefits to the intermediaries, with the intention to motivate them to perform certain activities as required.

Legitimate Power: Here the manufacturer reminds the channel partner to carry out their activities in accordance with the contract they have entered into at the time they became the channel partners.

Expert power: The manufacturer has the expertise that he transfers to the channel partners, and once they acquire it, the power of expertise reduces. Thus, the manufacturer should focus on creating the new expertise, thereby keeping the channel partners updated with the day to day operations.

Referent Power: The manufacturer should develop its image in such a way, that the intermediaries must feel proud to be associated with it. The manufacturer with the influential image can get varied options with regard to the channel partners.

Channel partnership.

It is important for companies to maintain a fruitful long-term relationship with its channel partners and the relationship even between the various channel membership should also be good.

To streamline the supply chain and cut costs, many manufacturers and retailers have adopted Efficient Consumer Response (ECR) practices in three areas:

a) Demand side management:- Collaborative activities to stimulate demand from consumer side by promoting joint marketing and sales activities.

b) Supply side management:- Collaborative practices to optimize supply.

c) Enablers & integrators:- Collaborative information technology & process improvement tools to support joint activities that reduce operational problems & allow standardization

Evaluating Channel Members.

Producers must periodically evaluate intermediaries' performance against standards such as:

– sales quota attainment

– average inventory levels

– customer delivery time

– treatment of damaged and lost goods

– cooperation in promotional and training programs

The underperformers need to be counseled, retrained, motivated, or terminated.

Modifying Channel Design and Arrangements.

In competitive markets with low entry barriers, the optimal channel structure will inevitably change over time.

The change could mean:

– adding or dropping individual market channels or channel members or

– developing a totally new way to sell goods.

Global Channel Considerations

International markets pose distinct challenges, including variations in customers’ shopping habits, but opportunities at the same.

Companies must:

– Try to get close to customers in order to understand their needs and wants.

– modify and design channels to satisfy the customers.

Channel Integration and systems

Vertical Marketing Systems

A **Vertical Marketing system (VMS)** comprises of the main distribution channel partners- the producer, the wholesaler and the retailer who work together as a unified group/system to serve the customer needs.

1) Corporate VMS: Combines the successive stages of production and distribution under single ownership
2) Administered VMS: Coordinates successive stages of production and distribution through same size and power of one of the members

3) Contractual VMS: In Contractual VMS, every member in the distribution channel works independently and integrate their activities on a contractual basis to obtain more economies or sales impact than they could have achieved alone.

a) Wholesaler-sponsored voluntary chains: Wholesalers organize voluntary chains of independent retailers to help standardize their selling practices and achieve buying economies in competing with larger chain organizations.

b) Retailer cooperatives: Retailers take the initiative and organize a new business entity to carry on wholesaling and possibly some production.

c) Franchise organisations: A continuing relationship in which a franchisor provides a licensed privilege to the franchisee to do business and offers assistance in organizing, training, merchandising, marketing and managing in return for a monetary consideration.

Horizontal Marketing Systems

A Horizontal Marketing system is a form of distribution channel wherein two or more organisations at the same level that are unrelated to each other come together to gain the benefits in the market.

In this marketing system, the collaboration can be between:

- Two or more Manufacturers- With an objective of making optimum utilization of scarce resources.
- Two or more Wholesalers-With the objective of covering a larger area of the distribution of goods and services.
- Two or more Retailers- With the objective of providing bulk quantities in a particular area.

Channel Conflict

Conflict among the channel partners gets generated when one prevents the other from achieving its objective. It results in a huge loss for all the partners in the channel.

- **Vertical Channel Conflict:** This type of conflict arises between the different levels in the same channel.
  E.g. The conflict between the manufacturer and the wholesaler regarding price, quantity, marketing activities, etc.
- **Horizontal Channel Conflict:** This type of conflict arises between the same level in the same channel.
  E.g. The conflict between two retailers of the same manufacturer faces disparity in terms of sales target, area coverage, promotional schemes, etc.
- **Multichannel conflict:** It arises when the manufacturer has established two or more channels that sell in the same region.

Managing channel conflict

- Strategic justification
- Dual compensation
- Superordinate goals
- Employee exchange
- Joint membership
- Co-optation
- Diplomacy, Mediation and Arbitration
- Legal Recourse

Pure-click companies

Pure-click companies are ones that conduct their business operations only online

B2C Pure click companies – Flipkart, Snapdeal, etc

B2B Pure click companies – TradeIndia, go4WorldBusiness, etc

Brick and click companies

It's a business model used by merchants to operate both an online store and a physical retail outlet. In other terms, the retailers give their customers both an online and offline channel to do their shopping.

Brick-and-mortar companies

refers to a traditional street-side business that offers products and services to its customers face-to-face in an office or store that the business owns or rents.

THANK YOU