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CHAPTER 7: Marketing Channel Strategy and Management

The Role of Marketing Channel

Most producers do not sell their goods directly to the final users; between them stands a set of intermediaries performing a variety of functions.

These intermediaries constitute a marketing channel.

Different type of intermediaries:

- Merchants - wholesalers and retailers
- Agents - brokers, manufacturers' representatives, sales agents
- Facilitators - transportation companies, independent warehouses, banks, advertising agencies

Channels not only link a producer of goods to the goods' buyer but also provide the means through which an organization implements its marketing strategy.

A marketing channel system is the particular set of marketing channels employed by a firm.

➤ THE CHANNEL - SELECTION DECISION

To customers, the channels are the company.

Channel selection involves specifying the type, location, density, and function of intermediaries, if any, in a marketing channel.

Marketing manager should answer following questions:

- Who are potential customers?
- Where do they buy?
- When do they buy?
- How do they buy?
- What do they buy?

The Design of Marketing Channel

Direct vs. Indirect Distribution

Direct distribution is usually employed when:

- Target markets are composed of easily identifiable buyers
- Personal selling is major component of organization's communication program
- The organization has a wide variety of offerings for the target markets
- Sufficient resources are available to satisfy target market requirements that would normally be handled by intermediaries
- Direct distribution must be considered when intermediaries are not available for reaching target markets, or when they don't possess the capacity to service the requirements of target market.
- Mainframe computers, unstandardized offering such as build custom-build machinery, and offering of high unit value are distributed directly.
- Also if the organization seeks to differentiate its offering from others distributed through intermediaries.
- Contacting buyers, storage, delivery, and credit are functions that should be considered when deciding whether to distribute directly or through intermediaries.
- Therefore, even though all signs favor direct distribution, the capacity of the organization to perform tasks normally assigned to intermediaries may eliminate this alternative.

Electronic Marketing Channels

- A feature of these channels is that they often combine electronic and traditional intermediaries.
- It also must be assessed on its revenue- producing capability relative to the costs of achieving market coverage and satisfying buyer requirements.

Channel Selection at Retail Level

Three questions should be considered when choosing marketing channel:

- Which channel and intermediaries will provide the best coverage of the target market?
- Which channel and intermediaries will best satisfy the buying requirements of the target market?
- Which channel and intermediaries will be the most profitable?

Target market coverage

Decide on the density and type of intermediaries to be used. Three degrees of distribution density exist:

1. **Intensive distribution** consists of the manufacturer placing the goods or services in as many outlets as possible. It is generally used for items such as tobacco products, soap, snack foods, and gum, products for which the consumer requires a great deal of location convenience. Intensive distribution increases product and service availability but may also result in retailers competing aggressively.
2. **Exclusive distribution** means severely limiting the number of intermediaries. It is used when the producer wants to maintain control over the service level and outputs offered by the resellers. Often it involves *exclusive dealing* arrangements. A common form of an exclusive agreement is a franchise agreement.
3. **Selective distribution** involves the use of more than a few but less than all of the intermediaries who are willing to carry a particular product. The company does not have to worry about too many outlets; it can gain adequate market coverage with more control and less cost than intensive distribution. Dell, inc. is a good example.

Satisfying Buyer Requirements

Decide on channels that satisfy at least some of the interests buyers want fulfilled when purchasing a firm's products or services. These interests fall into four broad categories:

1. Information – important requirement when buyers have limited knowledge or desire specific data about a product or service.
Intermediaries communicate with buyers through in-store displays, demonstrations, and personal selling.
2. Convenience has multiple meanings for buyers such as proximity or driving time to a retail outlet, or minimum of time and hassle. For those who shop on the Internet, convenience means that websites are easy to locate and navigate, and image downloads are fast.
3. Variety reflects buyers' interests in having numerous competing and complementary items from which to choose.
Variety is evident in both the breadth and depth of products and brands carried by intermediaries.

4. Attendant services – important buying requirement for products such as large household appliances that require delivery, installation, and credit.

Profitability

Profitability is determined by the margins earned for each channel member and for the channel as a whole.

Channel costs include distribution, advertising, and selling expenses.

The extent to which channel members share these costs determines the margins received by each member and by the channel as whole.

Channel Selection at Other levels of Distribution

Marketing manager must specify the type, location and density of intermediaries that will be used to reach retail outlets.

- Should the manager select a specialty wholesaler, a general-merchandise wholesaler, a general-line wholesaler, or a combination of wholesalers?
- The location of wholesalers is determined by the location of retail outlets to the extent that geographical proximity affects logistical considerations such as transportation costs and fast delivery service.
- The density of wholesaler is influenced by the density of the retail network and wholesaler service capabilities.

➤ DUAL DISTRIBUTION AND MULTI-CHANNEL MARKETING

Many organizations use multiple channels simultaneously.

Dual Distribution

Dual distribution occurs when an organization distributes its offering through two or more different marketing channels that may or may not compete for similar buyers.

It is adopted if:

Manufacturer produces its own brand as well as a private store brand

Manufacturer may distribute directly to major large-volume retailers, and may use wholesaler to reach smaller retailer outlets.

Geography itself may affect whether direct or indirect methods of distribution are used.

Multi-Channel Marketing

Multi-Channel marketing involves the blending of an electronic marketing channel and a traditional channel in ways that mutually reinforcing in attacking, retaining, and building relationships with customers.

It is pursued for a number of reasons:

- The addition of an electronic marketing channel can provide incremental revenue.
- Electronic marketing channel can leverage the presence of a traditional channel.
- Multi-channel marketing can satisfy buyer requirements.

Intermediaries and retailers are concerned with disintermediation-when traditional intermediary member is dropped from a marketing channel and replaced by an electronic storefront.

➤ SATISFYING INTERMEDIARY REQUIREMENTS AND TRADE RELATIONS

Intermediaries often choose those suppliers with whom they wish to deal.

Intermediary requirements

- Intermediaries are concerned with the adequacy of the manufacturer's offering in improving its product assortment for its own target markets.
- Intermediaries concerned with competition usually seek a degree of exclusivity in handling the manufacturer's offering.
- Intermediaries expect a profit margin on sales consistent with the functions they are expected to perform.

Trade relations

Marketing managers recognize that conflicts often arise in trade relations.

Channel conflict arises when one channel member believes another channel member is engaged in behavior that is preventing it from achieving its goals.

Conflicts arise:

1. When a channel member bypasses another member and sells or buys direct. (Wel-Mart)
2. Over how profit margins are distributed among the channels. (Michelin)
3. When manufacturers believe wholesaler or retailers are not giving their products adequate attention. (Nike)
4. When manufacturer engages in dual distribution and particularly when different retailers or dealers carry the same brands. (Tupperware)

Channel power can take four forms.

1. Economic power- arises from the ability of a firm to reward or coerce other members. (Microsoft Corporation and Wal-Mart)
2. Expertness (American Hospital Supply)
3. Identification with a particular channel member. (Retailers may compete to carry Ralph Lauren)
4. Legitimate right of one channel member to dictate the behavior of other members. (franchising)

➤ **CHANNEL-MODIFICATION DECISIONS**

A change in marketing strategy often initiates a channel-modification program.

At the base of the channel-modification decision should lie the marketing manager's intent to:

- provide the best coverage of the target market sought
- satisfy the buying requirements of the target market
- maximize revenues and minimize costs

Qualitative Factors in Modification Decisions

The qualitative assessment of a modification decision rests on a series of questions which imply that the modification decision involves a comparative analysis of the existing and the new channels.

- Will the change improve the effective coverage of the target markets?
- Will the change improve the satisfaction of buyer needs and how?
- Which marketing functions must be absorbed in order to make a change?
- Does the organization have the resources to perform the new functions?
- What effect will the change have on other channel participants?
- What will be the effect of the change of the achievement of long-range organizational objectives?

Quantitative Assessment of Modification Decision

Consider the financial impact of the change in terms of revenues and expenses.