What is a Distribution Channel?

- A set of interdependent organizations (intermediaries) involved in the process of bringing a product or service (making available for use) from the producer to the consumer or business user.
- Account for about 25% of product/service Cost.
- Channel decisions are among the most important decisions that management faces and will directly affect every other marketing decision.

Why are Marketing Intermediaries Used?

- Greater efficiency in making goods available to target markets.
- Offer the firm more than it can achieve on its own through the intermediaries:
  - Contacts
  - Experience
  - Specialization
  - Scale of operation
- Match supply and demand.
Channel Functions

- Physical distribution
- Communication & transaction
- Facilitating

Physical Distribution Functions

- Accumulating bulk
- Creating assortments
- Breaking bulk
- Reducing transactions
- Transporting & storing

Communication & Transaction Functions

- Gather & Disseminate Information
- Buying & Selling
  - Personal Selling
  - Advertising
  - Sales Promotion
- Transfer of Ownership

Transfer of Ownership
Facilitating Functions

Extra Services

Credit Services

Risk Taking

Channels Change

- A company can eliminate channel members (intermediaries), but it cannot eliminate the functions they perform.
- Disintermediation, or the shortening of marketing channels through the elimination of current channel members.

Consumer Marketing Channels & Levels

Channel Level - A layer of intermediaries that perform some work in bringing the product and its ownership closer to the buyer.

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<tr>
<th>Channel 1</th>
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Channel Behavior & Conflict

• Coordinated efforts by channel members to achieve common goals.

• 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 - *Competition*.
  – Vertical Conflict occurs between different levels of the same channel.

• For the channel to perform well, conflict must be managed.
• Usually through the exertion of Channel Power.
Types of Vertical Marketing Systems

- Greater Degree of Direct Control
  - Corporate VMS (Sherman Williams)
  - Contractual VMS (McDonalds)
  - Administered VMS (Sears - Wal-Mart)
- Lesser Degree of Direct Control
  - Retailer Cooperatives (IGA)
  - Franchise Organizations
  - Manufacturer-Sponsored Retailer Franchise System (Levi's)
  - Manufacturer-Sponsored Wholesaler Franchise System (Coca Cola)
  - Service-Firm-Sponsored Franchise System (McDonalds)

Channel Design Decisions

- Analyzing Consumer Service Needs
- Setting Channel Objectives & Constraints
- Identifying Major Alternatives
  - Intensive Distribution
  - Selective Distribution
  - Exclusive Distribution
- Evaluating the Major Alternatives
Planning the Channel of Distribution

• Determining the structure
  – Marketing mix strategy
  – Organizational resources
  – External environmental factors
  – Market characteristics
  – Consumer preferences and behavior
  – The nature and availability of Intermediaries

Other Distribution Issues

• Does Distribution Cost too much?
• Should we have Reverse Distribution?
• Is Exclusive Dealing legal?
• Are Exclusive Territories legal?
• Are Tying Contracts allowable?

A Supply Chain

• Is the system of collaborating organizations that help supply products to markets from conception to consumption.
• They are behavioral systems
  – Cooperation
  – Competition
  – Conflict
• Require Specialization among channel members
• Which Creates: Dependence and Risk
Nature and Importance of Marketing Logistics

- Involves getting the right product to the right customers in the right place at the right time at the right price.
  - effective logistics is becoming a key to winning and keeping customers.
  - logistics is a major cost element for most companies.
  - the explosion in product variety has created a need for improved logistics management.
  - information technology has created opportunities for major gains in distribution efficiency.

Goals of the Logistics System

- Provide a Targeted Level of Customer Service at the Least Cost.
- Maximize Profits, Not Sales.

Total Cost: A Systems Approach
Logistics Systems

Logistics as Competitive Advantage

- Wal-Mart is the world’s largest retailer
- They got there by developing a sustainable competitive advantage
- Logistics is especially important in the distribution of products that are essentially the same as the competition’s

Channel Management Decisions

- Selecting
- Motivating
- Evaluating

FEEDBACK
Channel Design (Selection)

- 1. Identify the Target Market.
- 2. Determine the Target Customer’s buying habits for the type of goods.
- 3. Locate your potential customers geographically.
- 4. Formulate Channel Objectives.
- 5. Determine and Evaluate Channel Alternatives.
- 6. Select and Recruit Channel Members.
- 7. EVALUATE PERFORMANCE! (SEE 1-6)

Transportation Modes

- **Rail**
  Nation’s largest carrier, cost-effective for shipping bulk products, piggyback

- **Truck**
  Flexible in routing & time schedules, efficient for short-hauls of high value goods

- **Water**
  Low cost for shipping bulky, low-value goods, slowest form

- **Pipeline**
  Ship petroleum, natural gas, and chemicals from sources to markets

- **Air**
  High cost, ideal when speed is needed or to ship high-value, low-bulk items
**Trends in Wholesaling**

**Wholesaling Developments to Consider**

- Must Learn to Compete Effectively Over Wider and More Diverse Areas
- Increasing Consolidations Will Reduce Number of Wholesalers
- Surviving Wholesalers Will Grow Larger Through Acquisitions and Mergers
- Vertical Integration Will Remain Strong
- Global Expansion

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**Channel Behavior & Conflict**

- When Cooperation doesn’t happen, conflict occurs:
  - Horizontal Conflict occurs among firms at the same level of the channel.
  - Vertical Conflict occurs between different levels of the same channel.

- For the channel to perform well, conflict must be managed.
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**Total Cost: A Systems Approach**

- Involves the TOTAL COST CONCEPT
- Optimizing the Customer Service level at the lowest possible price.
- This is not the same as minimizing cost.
- It puts the objective function into the equation.
Distribution Channel Functions

- All can often be performed better through specialization
- All use up scarce resources

Risk Taking  Information
Financing     Promotion
Physical Distribution  Contact
Negotiation  Matching

Innovations in Marketing Systems

<table>
<thead>
<tr>
<th>Horizontal Marketing System</th>
<th>Hybrid Marketing System</th>
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<tbody>
<tr>
<td>Two or More Companies at One Channel Level Join Together to Follow a New Marketing Opportunity. Example: Banks in Grocery Stores</td>
<td>A Single Firm Sets Up Two or More Marketing Channels to Reach One or More Customer Segments. Example: Retailers, Catalogs, and Sales Force</td>
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Distribution’s Function

- The major purpose of marketing is to satisfy human needs by delivering products of various types to buyers when and where they want them and at a reasonable cost.
- The “when and where” is the function of Distribution
Vertical Marketing Systems

- Corporate systems - total ownership

- Contractual - legal relationships

- Administered - strong leadership

Why are Wholesalers Used?

Wholesalers are Often Better at Performing One or More of the Following Channel Functions:

Wholesaler Functions

Wholesale Management Strategies

- Strategic Alliances
- Selecting Target Markets/Create Assortments
- Physical Distribution