

Distribution Decisions

Marketing Channels and Supply
Chain Management

Direct Marketing and Marketing
Resellers: Retailers and
Wholesalers




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The Role of Marketing Channels in Marketing Strategy

- Channels provide the means by which the firm moves the goods and services it produces to ultimate users.
 - ✓ Facilitate the exchange process by cutting the number of contacts necessary.
 - ✓ Adjust for discrepancies in the market's assortment of goods and services via sorting.
 - ✓ Standardize exchange transactions.
 - ✓ Facilitate searches by both buyers and sellers.

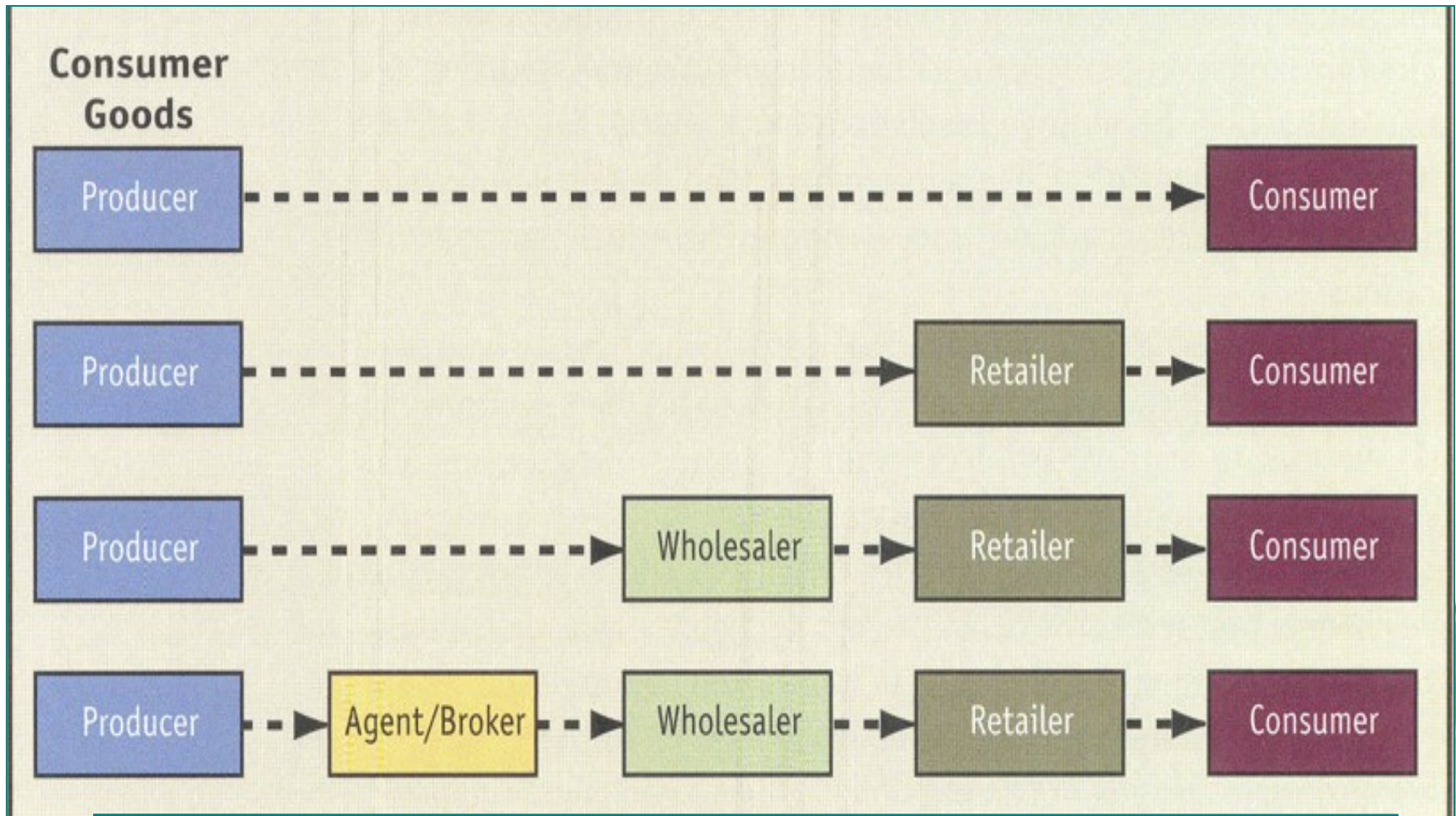


Types of Marketing Channels

- **Marketing channel:** system of marketing institutions that promotes the physical flow of goods and services, along with ownership title, from producers to consumer or business user; also called a distribution channel.
 - **Marketing intermediary:** wholesaler or retailer that operates between producers and consumers or business users; also called a middleman / agent.
 - **Wholesaler:** marketing intermediary that takes title to goods and then distributes these goods further; also called a distributor.
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■ Types of Marketing Channels

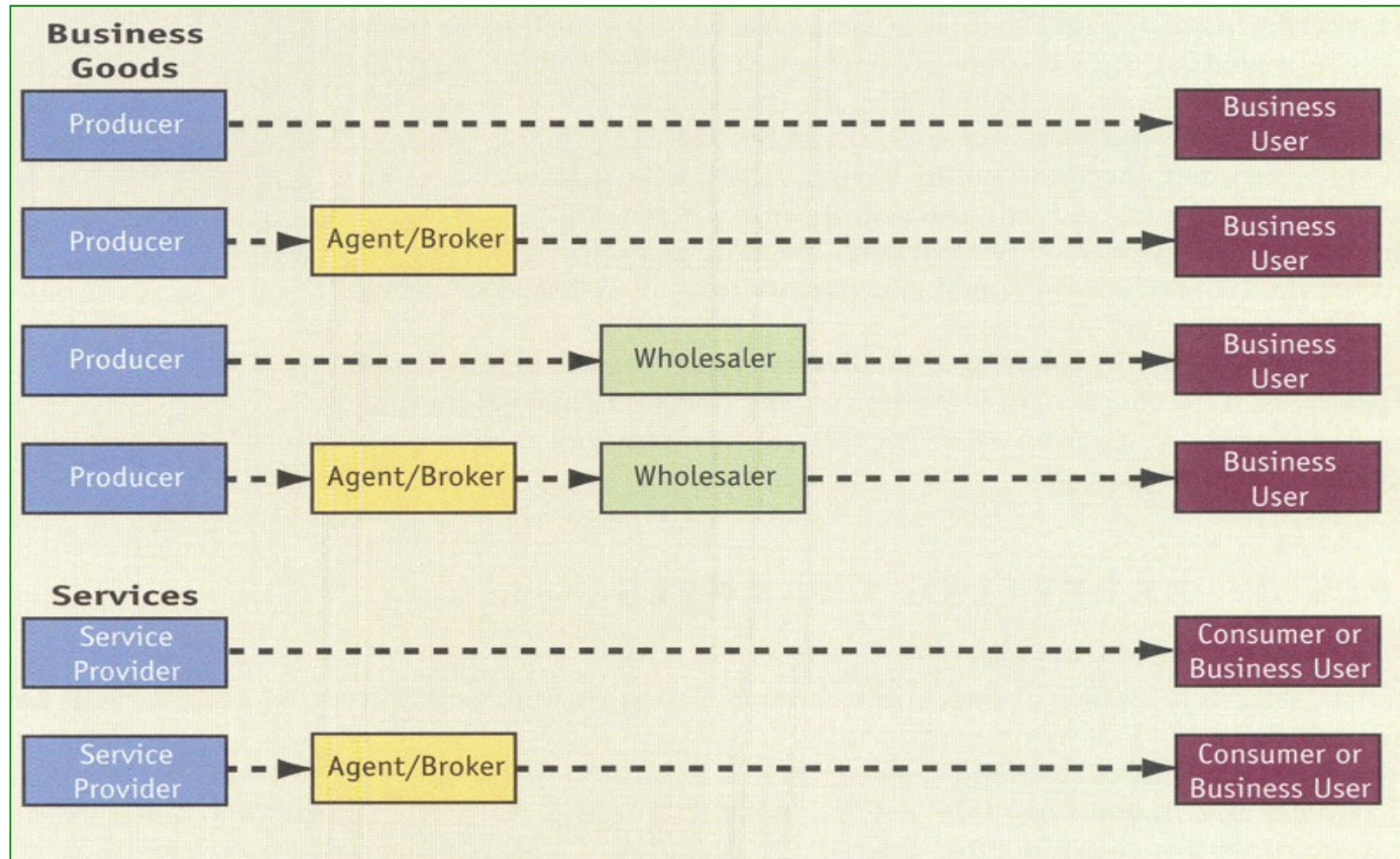
✓ Consumer Goods



■ Types of Marketing Channels

✓ Business Goods

✓ Services



■ **Direct Selling:**

- ✓ **Direct channel:** marketing channel that moves goods directly from a producer to ultimate user.
- ✓ **Direct selling:** strategy designed to establish direct sales contract between producer and final user.



■ Channels Using Marketing Intermediaries

- ✓ Producer to wholesaler to retailer to consumer.
- ✓ Producer to wholesaler to business user.
- ✓ Producer to agent to wholesaler to retailer to consumer.
- ✓ Producer to agent to wholesaler to business user.
- ✓ Producer to agent to business user.



- **Dual Distribution:** Network that moves products to a firm's target market through more than one marketing channel.
- **Reverse Channels:** Channels designed to return goods to their producers.



Channel Strategy Decisions

- Selection of a Marketing Channel
- Factors which impact the selection of a marketing channel include:
 - ✓ Market factors
 - ✓ Product factors
 - ✓ Organizational factors
 - ✓ Competitive factors



■ Factors influencing Marketing Channel Strategies

	Characteristics of Short Channels	Characteristics of Long Channels
Market factors	Business users	Consumers
	Geographically concentrated	Geographically diverse
	Extensive technical knowledge and regular servicing required	Little technical knowledge and regular servicing not required
	Large orders	Small orders
Product factors	Perishable	Durable
	Complex	Standardized
	Expensive	Inexpensive

	Characteristics of Short Channels	Characteristics of Long Channels
Producer factors	Manufacturer has adequate resources to perform channel functions	Manufacturer lacks adequate resources to perform channel functions
	Broad product line	Channel control important
	Limited product line	Channel control not important
Competitive factors	Manufacturing feels satisfied with marketing intermediaries' performance in promoting products	Manufacturer feels dissatisfied with marketing intermediaries' performance in promoting products

■ **Determining Distribution Intensity**

- ✓ Distribution intensity: number of intermediaries through which a manufacturer distributes its goods.



- **Intensive distribution:** channel policy in which a manufacturer of a convenience product attempts to saturate the market.
- **Selective distribution:** channel policy in which a firm chooses only a limited number of retailers to handle its product line.
- **Exclusive distribution:** channel policy in which a firm grants exclusive rights to a single wholesaler or retailer to sell its products in a particular geographic area.



■ **Legal problems of exclusive distribution:**

- ✓ **Exclusive-dealing agreement:** arrangement between manufacturer and e-marketing intermediary that prohibits the intermediary from handling competing product lines.
- ✓ **Closed sales territories:** exclusive geographic selling region of a distributor.
- ✓ **Tying agreement:** Arrangement that requires a marketing intermediary to carry items other than those they want to sell.

■ Who Should Perform Channel Functions?

- ✓ Fundamental principle that governs channel decisions.
- ✓ Channel members can shift responsibilities for the performance of certain marketing functions, but they cannot eliminate central functions.



Channel Management and Leadership

- **Channel Captain:** a dominant and controlling member of a marketing channel.


- **Channel Conflict:**
 - ✓ **Horizontal Conflict**
 - ◆ Most often, horizontal conflict causes sparks between different types of marketing intermediaries that handle similar products.
 - ◆ Sometimes results from disagreements among channel members at the same level.



✓ **Vertical Conflict**

- ◆ Channel members at different levels find many reasons for disputes..
- ◆ Example: when retailers develop private brands to compete with producers' brands or when producers establish their own retail outlets or www sites.

✓ **The Gray Market**

- ◆ **Grey Good:** product made abroad under license from a firm and then sold in the same market in competition with that firm's own domestic output.
 - ◆ Viewed by producers as undesired competition.
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■ **Achieving Channel Cooperation:**

- ✓ Channel Cooperation, achieved via effective cooperation among channel members, is the desired antidote to channel conflict.
- ✓ It is Best achieved when all channel members regard themselves as components of the same organization.



Vertical Marketing Systems

- **Vertical marketing system (VMS):** planned channel system designed to improve distribution efficiency and cost effectiveness by integrating various functions throughout the distribution chain.
 - ✓ **Forward integration**
 - ✓ **Backward integration**



- **Administered marketing system:** VMS that achieves channel coordination when a dominant channel member exercises its power.
- **Corporate marketing system:** A VMS in which a single owner operates at each stage in its marketing channel.



- **Contractual marketing system:** VMS that coordinates channel activities through formal agreements among channel members like:
 - ✓ **Wholesaler-Sponsored Voluntary Chains**
 - ✓ **Retail Cooperatives**
 - ✓ **Franchises**



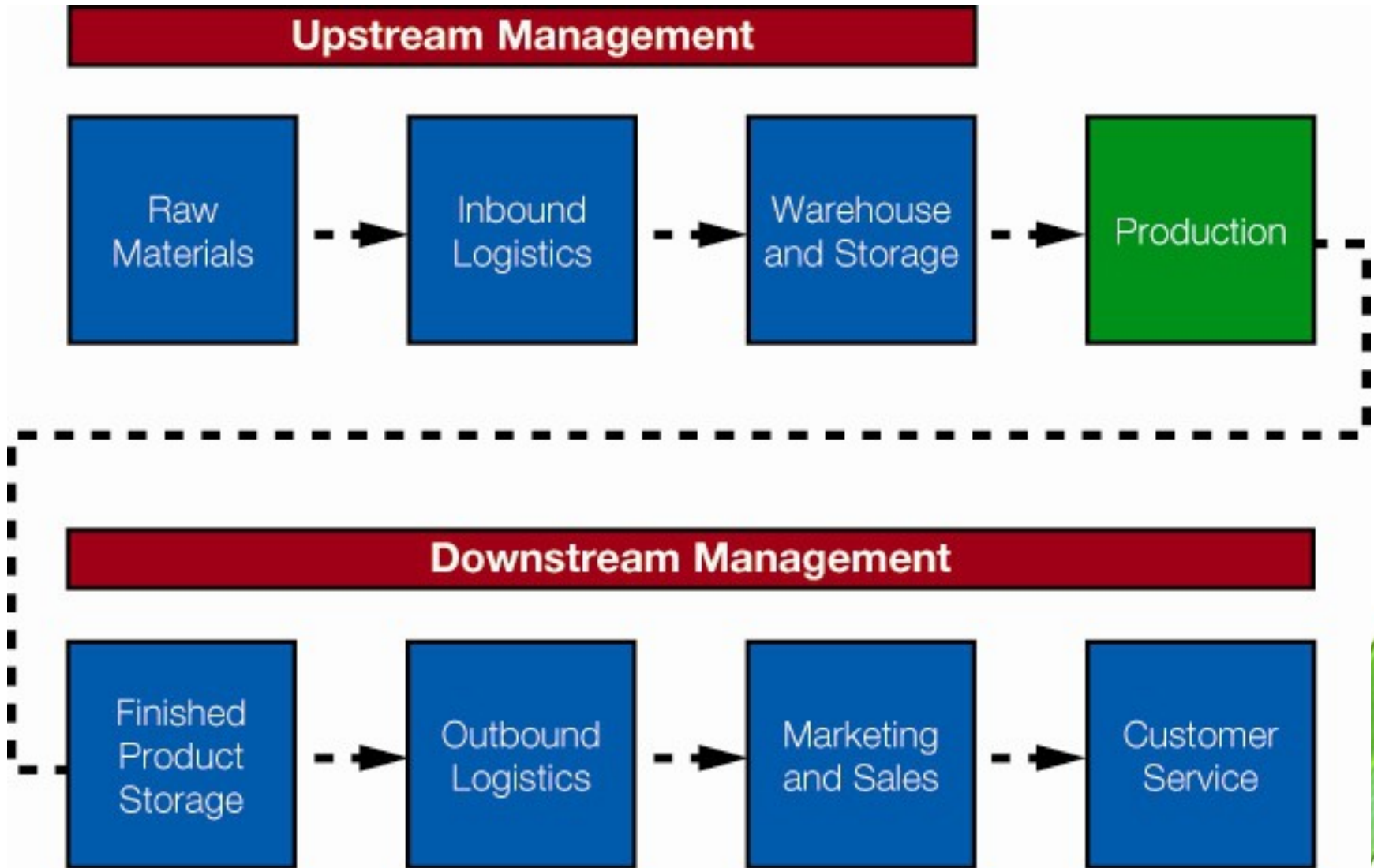
Logistics and Supply Chain Management

- **Supply (value) chain:** sequence of suppliers that contributes to the creation and delivery of a good or service.
 - ✓ **Upstream management**
 - ✓ **Downstream management**



■ Figure 13.6

✓ The Supply Chain of a Manufacturing Company



■ **Radio Frequency Identification (RFID)**

- ✓ Technology that uses a tiny chip with identification information that can be read by a scanner using radio waves from a distance.

■ **Enterprise Resource Planning**

- ✓ Software system that consolidates data among a firm's units.

■ **Logistical Cost Control**

- ✓ **Third party (contract) logistics firm:** company that specializes in handling logistics activities for other firms.



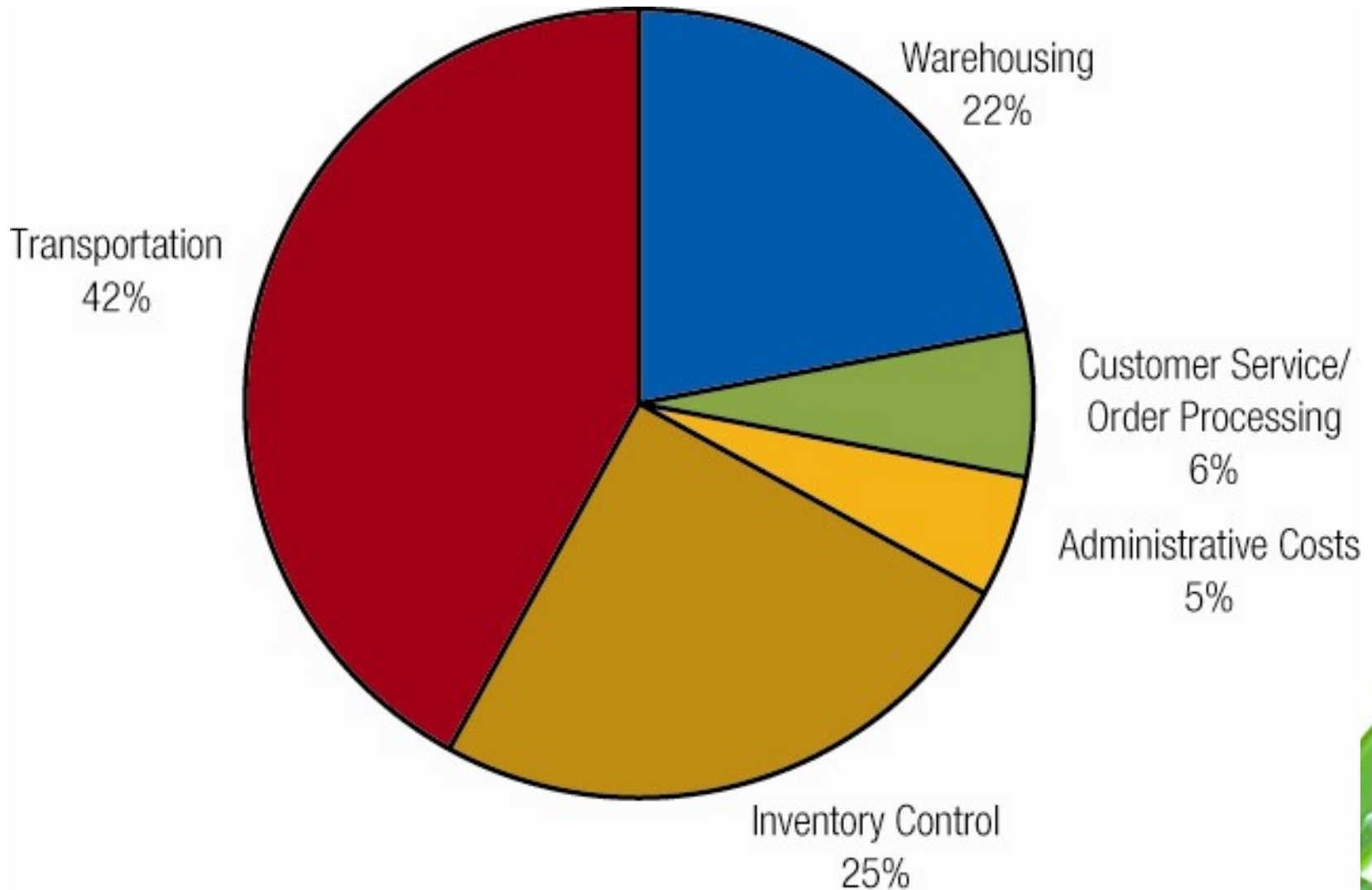
Physical Distribution

- A company's physical distribution system contains the following elements:
 - ✓ **Customer Service**
 - ✓ **Transportation**
 - ✓ **Inventory Control**
 - ✓ **Protective packaging and materials handling**
 - ✓ **Order Processing**
 - ✓ **Warehousing**



■ Figure 13.7

✓ Allocation of Physical Distribution Expenditures



The Problem of Sub-optimization

Condition that results when individual operations achieve their objectives but interfere with progress toward broader organizational goals

Customer Service Standards

Statement of goals and acceptable performance for the quality of service that a firm expects to deliver to its customers




■ **Transportation**

- ✓ **Class Rate**

- ✓ **Commodity Rate**

- ✓ **Classes of Carriers**

- ◆ **Common carriers** move freight via all modes of transportation for the general public.
 - ◆ **Contract carriers** do not serve the general public.
 - ◆ **Private carriers** do not offer services for hire, but provide transportation services solely for internally generated freight.
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■ Major Modes of Transportation

- ✓ Railway
- ✓ Motor Carriers
- ✓ Water Carriers
- ✓ Pipelines
- ✓ Air Freight
- ✓ Freight Forwarders and Supplemental Carriers
- ✓ Intermodal Coordination



■ Comparison of Transport Modes

Mode	Speed	Dependability in Meeting Schedules	Frequency of Shipments	Availability in Different Locations	Flexibility in Handling	Cost
Rail	Average	Average	Low	Low	High	Average
Water	Very slow	Average	Very low	Limited	Very high	Very low
Truck	Fast	High	High	Very extensive	Average	High
Pipeline	Slow	High	High	Very limited	Very low	Low
Air	Very fast	High	Average	Average	Low	Very high

■ Warehousing

- ✓ Storage warehouse

- ✓ Distribution warehouse

- ✓ **Automated Warehouse Technology**

 - ◆ Distribution costs can be cut and customer service improved by automating warehouse systems



✓ **Warehouse Locations:**

- ◆ Major logistics decision involving the number and location(s) of storage facilities.
- ◆ Two cost categories influence the choice:
 - Warehousing and materials-handling costs.
 - Delivery costs from warehouse to customers.



■ Inventory Control Systems

- ✓ Important since firms need to maintain enough inventory to meet customer demand without incurring unneeded costs for carrying excess inventory.
- ✓ **Just-in-time (JIT) production**
- ✓ **Vendor-managed inventory (VMI)**

■ Order Processing

- ✓ **Stockout:** order for a product that is unavailable for shipment or sale.



■ **Protective Packaging and Materials Handling**

- ✓ **Materials Handling:** set of activities that move production inputs and other goods within plants, warehouses, and transportation terminals.
 - ◆ **Unitizing:** process of combining individual materials into large loads for easy handling.
 - ◆ **Containerization:** process of combining several unitized loads into a single, well-protected load

