

# *Marketing Channels and Supply Chain Management*



## **Lesson 9**

# Definitions

- **Value Delivery Network**
  - The network made up of the company, suppliers, distributors, and ultimately customers who “partner” with each other to improve the performance of the entire system.
- **Marketing channel**
  - Set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user

# Nature & Importance of Marketing Channels

- **Channel choices affect other decisions in the marketing mix**
  - Pricing, Marketing communications
- **A strong distribution system can be a competitive advantage**
- **Channel decisions involve long-term commitments to other firms**

# Nature & Importance of Marketing Channels

- **How Channel Members Add Value**
  - Intermediaries require fewer contacts to move the product to the final purchaser.
  - Intermediaries help match product assortment demand with supply.
  - Intermediaries help bridge major time, place, and possession gaps that separate products from those who would use them.

# Nature & Importance of Marketing Channels

## Key Functions Performed by Channel Members



- **Information**
- **Promotion**
- **Contact**
- **Matching**
- **Negotiation**
- **Physical Distribution**
- **Financing**
- **Risk taking**

# Nature & Importance of Marketing Channels

- **Number of Channel Levels**
  - The number of intermediary levels indicates the length of a marketing channel.
    - Direct Channels
    - Indirect Channels
  - Producers lose more control and face greater channel complexity as additional channel levels are added.

# Nature & Importance of Marketing Channels

## Channel Members Are Connected Via A Variety of Flows



- Physical Flow
- Information Flow
- Payment Flow
- Promotion Flow
- Flow of Ownership

# Channel Behaviour and Organization

- **Channel Conflict**

- Occurs when channel members disagree on roles, activities, or rewards.
- **Types of Conflict:**
  - **Horizontal conflict:** occurs among firms at the same channel level
  - **Vertical conflict:** occurs among firms at different channel levels

# Channel Behaviour and Organization

- **Conventional Distribution Channels**
  - Consists of one or more independent channel members
  - Lack leadership and power
  - Often result in poor performance
- **Vertical Marketing Systems**
  - Consists of members acting as a unified system
  - Use contracts, ownership or power

# Channel Behaviour and Organization

## *Vertical Marketing Systems*

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- **Corporate VMS**
- Contractual VMS
- Administered VMS

- Corporation owns production and distribution
- Coordination and conflict through regular organizational channels

# Channel Behaviour and Organization

## *Vertical Marketing Systems*

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- Corporate VMS
  - **Contractual VMS**
  - Administered VMS
- Individual firms who join through contracts
  - Franchise organizations
    - Manufacturer-sponsored retailer franchise system
    - Manufacturer-sponsored wholesaler franchise system
    - Service-firm-sponsored retailer franchise system

# Channel Behaviour and Organization

## *Vertical Marketing Systems*

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- Corporate VMS
- Contractual VMS
- **Administered VMS**

- **Leadership through the size and power of dominant channel members**
- **Leadership could be manufacturer or retailer**

# Channel Behaviour and Organization

- **Horizontal Marketing Systems**
  - Companies at the same level work together with channel members
- **Multi-channel Distribution Systems**
  - Also called hybrid marketing channels
  - Occurs when a firm uses two or more marketing channels
- **Changing Channel Organization**
  - Disintermediation

# Channel Design Decisions

- **Step 1: Analyzing Consumer Needs**
  - Cost and feasibility of meeting needs must be considered
- **Step 2: Setting Channel Objectives**
  - Set channel objectives in terms of targeted level of customer service
  - Many factors influence channel objectives

# Channel Design Decisions

- **Step 3: Identifying Major Alternatives**
  - **Types of intermediaries**
    - Company sales force, manufacturer's agency, industrial distributors
  - **Number of marketing intermediaries**
    - Intensive, selective, and exclusive distribution
  - **Responsibilities of channel members**

# Channel Design Decisions

- **Step 4: Evaluating Major Alternatives**
  - Economic criteria
  - Control issues
  - Adaptive criteria

# Channel Design Decisions

- **Designing International Distribution Channels**
  - Global marketers usually adapt their channel strategies to structures that exist within foreign countries
  - Key challenges:
    - May be complex or hard to penetrate
    - May be scattered, inefficient, or totally lacking

# Channel Management Decisions

- **Selecting Channel Members**
  - Identify characteristics that distinguish the best channel members
- **Managing and Motivating Channel Members**
  - Partner relationship management (PRM) is key
- **Evaluating Channel Members**
  - Performance should be checked against standards
  - Channel members should be rewarded or replaced as dictated by performance

# Channel Management Decisions

## Decisions

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- *Selecting channel members*
- *Managing and motivating channel members*
- *Evaluating channel members*

- **Which characteristics are important?**
  - Years in business
  - Lines carried
  - Growth and profit record
  - Cooperativeness and reputation
  - Type of customer
  - location

# Channel Management Decisions

## Decisions

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- *Selecting channel members*
- *Managing and motivating channel members*
- *Evaluating channel members*

- **Partner relationship management (PRM) for long-term partnerships**
- **Software available to coordinate members**

# Channel Management Decisions

## Decisions

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- *Selecting channel members*
- *Managing and motivating channel members*
- *Evaluating channel members*

- **Check channel performance of:**
  - Sales
  - Inventory
  - Customer delivery
  - Promotion and training
  - Customer service

# Public Policy and Distribution Decisions

- **Exclusive distribution**
  - Only certain outlets are allowed to carry a firm's products
- **Exclusive dealing**
  - Exclusive territorial agreements
  - Tying agreements

# Marketing Logistics and Supply Chain Management

- **Marketing Logistics**
  - Outbound distribution
  - Inbound distribution
  - Reverse distribution
  - Involves the entire supply chain management system

# Marketing Logistics and Supply Chain Management

- **Why Greater Emphasis is Being Placed on Logistics:**
  - Offers firms a competitive advantage
  - Can yield cost savings
  - Greater product variety requires improved logistics
  - Improvements in distribution efficiency are possible due to information technology

# Marketing Logistics and Supply Chain Management

- **Goals of the Logistics System**
  - No system can both maximize customer service and minimize costs.
  - Firms must first weigh the benefits of higher service against the costs.
  - State goals in terms of a targeted level of customer service at the least cost.

# Marketing Logistics and Supply Chain Management

- **Major Logistics Functions**
  - Warehousing
  - Inventory Management
  - Transportation
  - Logistics Information Management

# Marketing Logistics and Supply Chain Management

## Transportation Carrier Options

- Truck
- Rail
- Water
- Pipeline
- Air
- Internet

*Inter-modal transportation is becoming more common*

# Marketing Logistics and Supply Chain Management

- **Integrated Logistics Management**
  - Cross-functional teamwork inside the company is critical
  - Logistics partnerships are also built through shared projects
  - Outsourcing of logistics firms to third-party firms is becoming more common