

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

- **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

- 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

- 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

- *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

- *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

- *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