Channel Management Defined

- The strategies and processes by which marketers ensure that products are distributed to customers efficiently and effectively – makes it all happen.

Channels of Distribution

- Businesses have different options for moving their products to the consumers and businesses who want them.
  - These routes are known as **channels of distribution**
    - Move products from producers to consumers
    - Benefit both consumers and businesses
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**Channels of Distribution**

- Producer
- Retailer
- Consumer
- Producer
- Industrial Distributor
- Industrial User

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**Channel Activities**

- Providing marketing information
- Promoting products
- Negotiating
- Reducing discrepancies
- Financing and risk-taking

Providing marketing information:
Every producer is trying to reach and sell to a specific target market for each of its products.
Companies rely on market research to determine their target markets’ needs and wants.
Intermediaries are often closer to final consumers than producers themselves.

Promoting products:
Can be expensive
When a product is sold through intermediaries, the cost can be shared.
Retailers often assume a large portion of promotion responsibilities.
Shared promotion activities within the channel can lower channel members’ individual costs while producing the same results.

Negotiating:
Producers often don’t have the time or the ability to negotiate with final consumers on issues such as price, delivery, installations, etc.

Reducing discrepancies:
Quantity and assortment – issues middlemen can solve.
Financing and risk-taking: Moving products through a channel costs money – money to manufacture, to transport and store, to promote, to gather information about target market needs, to extend credit to consumers. When channel members work together to finance these activities and to assume the inherent financial risks, channels will be more effective.

Benefits all channel members. If a member does not add value, channel managers need to reevaluate whether or not that member belongs in the channel. Several ways members can add value:

- Often impractical for a producer to perform all of the activities needed to get its product into the hands of final consumers.
- Any channel member that can perform one or more of these tasks can add value.

Waterways are referred to as channels – picture water flowing through a channel; what happens if something clogs the channel (trash, debris, dam); water doesn’t move through efficiently; same principle applies to channels of distribution.
Channel Management Decisions
- Setting channel objectives
- Determining distribution patterns:
  - Intensive
  - Selective
  - Exclusive
- Selecting channel members
- Determining channel responsibilities

Marketeters want to achieve something called *ideal market exposure* – they want to make their product available to each and every customer who might buy it, but they don’t want to over-distribute the product and waste money.

To achieve ideal market exposure, marketers must determine **distribution intensity**.

Distribution patterns are determined by considering consumer needs as well as the nature of the product itself. These patterns may be:

- **Intensive** – selling a product through every available wholesaler and retailer in a geographic area where consumers might look for it; marketers use this method when they are attempting to reach the greatest number of consumers possible; convenience products are often distributed this way; consider all the different places you can pick up a pack of gum.

- **Selective** – selling a product through a limited number of wholesalers and retailers in a geographic area; marketers use this when they want to deal with the middlemen they feel will do the best job of promoting and selling their products; companies may be able to make a higher profit using this by creating greater sales volume through a smaller number of successful outlets (i.e., Nautica)

- **Exclusive** – selling a product through just one middleman in a geographic area; marketers use this method when they need to maintain tight control over a product; airplanes and large machinery.

Selecting channel members – types of members that belong in the
channel (wholesalers, retailers, etc.); channel length (total number of channel members); channel member types are usually based on the nature of the product; channels may be long (spread financial risk) or short (product reaches consumers more quickly); there are a number of factors marketers must consider when choosing specific channel members, each middleman should: create product value that the producer or other middlemen cannot or are not willing to provide (shipping, promoting, etc.), channel the product to its desired target market(s), have a pricing and promotion strategy compatible with the product’s needs, be willing and able to work cooperatively with other members with the product’s channel.

Channel responsibilities – certain activities must take place within a channel no matter which channel member performs them; products must be shipped, promoted and sold to final consumers before any profits can be made; determining channel responsibilities is an important part of channel management; channels are effective only when members work together appropriately and perform the tasks they are best suited for.
Isn’t always easy to keep channel running smoothly; that’s why channel management is so important; marketers should constantly evaluate the channel to see what’s working, what’s not working, and what can be improved; channel members can be motivated in a number of ways: positive or negative; sanctions on middlemen who do not perform well; middlemen can also hit producers with chargebacks, financial penalties assessed for a variety of problems, such as late shipments or damaged merchandise; incentives for reaching certain goals; marketers can also motivate channel members by reinforcing the product on a regular basis – providing training, sending out product update letters, participating in cooperative advertising; in general, positive measures are more effective for motivation than negative measures.

Conflict – horizontal – occurs between channel members at the same level; good, old-fashioned business competition; vertical – occurs between channel members at different levels within the same channel; this is the type managers must pay close attention to; usually occurs between producers and wholesalers or producers and retailers; e-commerce options also brings about conflict as does multiple or dual distribution (producers use more than one channel to distribute a product, creating horizontal and vertical conflict at the same time; managing vertical conflict is challenging, aren’t always easy answers for marketers; they must learn to recognize and
address conflict when and where it occurs so the channel can continue to run smoothly.