

how to print notes

Chapter 15 MANAGING MARKETING CHANNELS AND WHOLESALE

NATURE AND IMPORTANCE OF MARKETING CHANNELS

A. Defining Marketing Channels of Distribution

- Derived from the Latin word *canalis* (canal). A marketing channel can be viewed as a canal or pipeline for products.
- Individuals and firms involved in the process of making a product or service available for use or consumption by consumers or industrial users.
- Terms used for marketing intermediaries are defined in Figure 15-1.

B. Value Created by Intermediaries

Functions Performed by Intermediaries

- Transactional and Logistical Functions **MUST** be performed by someone.
- It could be the producer, wholesaler, retailer, end user, or another party.

| TYPE OF FUNCTION | ACTIVITIES RELATED TO FUNCTION |
|------------------------|--|
| Transactional function | <ul style="list-style-type: none"> • <i>Buying</i>: Purchasing products for resale or as an agent for supply of a product • <i>Selling</i>: Contacting potential customers, promoting products, and soliciting orders • <i>Risk taking</i>: Assuming business risks in the ownership of inventory that can become obsolete or deteriorate |
| Logistical function | <ul style="list-style-type: none"> • <i>Assorting</i>: Creating product assortments from several sources to serve customers • <i>Storing</i>: Assembling and protecting products at a convenient location to offer better customer service • <i>Sorting</i>: Purchasing in large quantities and breaking into smaller amounts desired by customers • <i>Transporting</i>: Physically moving a product to customers |
| Facilitating function | <ul style="list-style-type: none"> • <i>Financing</i>: Extending credit to customers • <i>Grading</i>: Inspecting, testing, or judging products, and assigning them quality grades • <i>Marketing information and research</i>: Providing information to customers and suppliers, including competitive conditions and trends |

Transactional functions.

- **Contacting buyers**
- **Promoting the product to be sold**
- **Negotiating**
- **transportation**
- **Quantity**
- **Reduce contacts between producers and users.**

| | | |
|---|--|---|
| | . Risk-taking (with possession of products.) | |
| Logistical functions. | Physical Distribution | <ul style="list-style-type: none">• Moving products from production to consumer• Overcomes temporal discrepancies.• Overcomes spatial discrepancies. |
| | Sorting Functions | <ul style="list-style-type: none">• Overcome discrepancies of quantity• Overcome discrepancies assortment |
| Facilitating functions. | Research | <ul style="list-style-type: none">• Gathering information about other channel members and consumers. |
| | Financing | <ul style="list-style-type: none">• Some wholesalers give credit• Inventories are financed as products flow through or are held in channels• retailers may give credit for purchasers |
| 2. Consumer Benefits from Intermediaries through the four utilities: | | |
| Time utility | having a product or serviced when you want it. | |
| Place utility | having a product or service where you want it. | |
| Form utility | having a product or service in the form you want it by, for example, enhancing it to make it more appealing to buyers. | |
| Possession | utility–helping buyers to take possession of a product or service. | |
| Channels Overcome Discrepancies | | |
| Quantity | Difference between the amount produced and the amount a buyer wants. | |
| Assortment | Lack of all the items needed to get full satisfaction from a purchase. | |
| Temporal | Product is produced and a consumer is not ready to buy it. | |
| Spatial | Difference between producer location and market locations. | |
| Channels Improve Contact (buying trip) Efficiency | | |
| <ul style="list-style-type: none">• Reduces the transactions needed to get products to consumers.• Retailers assemble a selection of merchandise so that one contact can result in the purchase of many different items. | | |
| | | |

CHANNEL STRUCTURE AND ORGANIZATION

A. Marketing Channels for Consumer Goods and Services

Consumer Channel Structures

The appropriate configuration of channel members.

| | | | |
|-----------------------|-------------------------|---------------------------|-----------------------------|
| Direct Channel | Retailer Channel | Wholesaler Channel | Agent Broker Channel |
|-----------------------|-------------------------|---------------------------|-----------------------------|

| Producer | Producer | Producer | Producer |
|--|---|---|--|
| ↓ | ↓ | ↓ | ↓ |
| | | | Agent or Broker |
| | | ↓ | ↓ |
| | | Wholesaler | Wholesaler |
| | | ↓ | ↓ |
| | Retailer | Retailer | Retailer |
| ↓ | ↓ | ↓ | ↓ |
| Consumer | Consumer | Consumer | Consumer |
| a producer and ultimate consumers deal directly with each other. | Large retailer Cost of inventory makes it too expensive to use a wholesaler. | low-cost, low-unit value frequently purchased Manufacturer sells to wholesalers in large quantities; Wholesalers break bulk Retailers order in smaller quantities. | Many small manufacturers and Many small retailers Agent coordinates a large supply of the product. Manufacturer uses agents to sell to wholesalers, which then sell to many small retailers. |

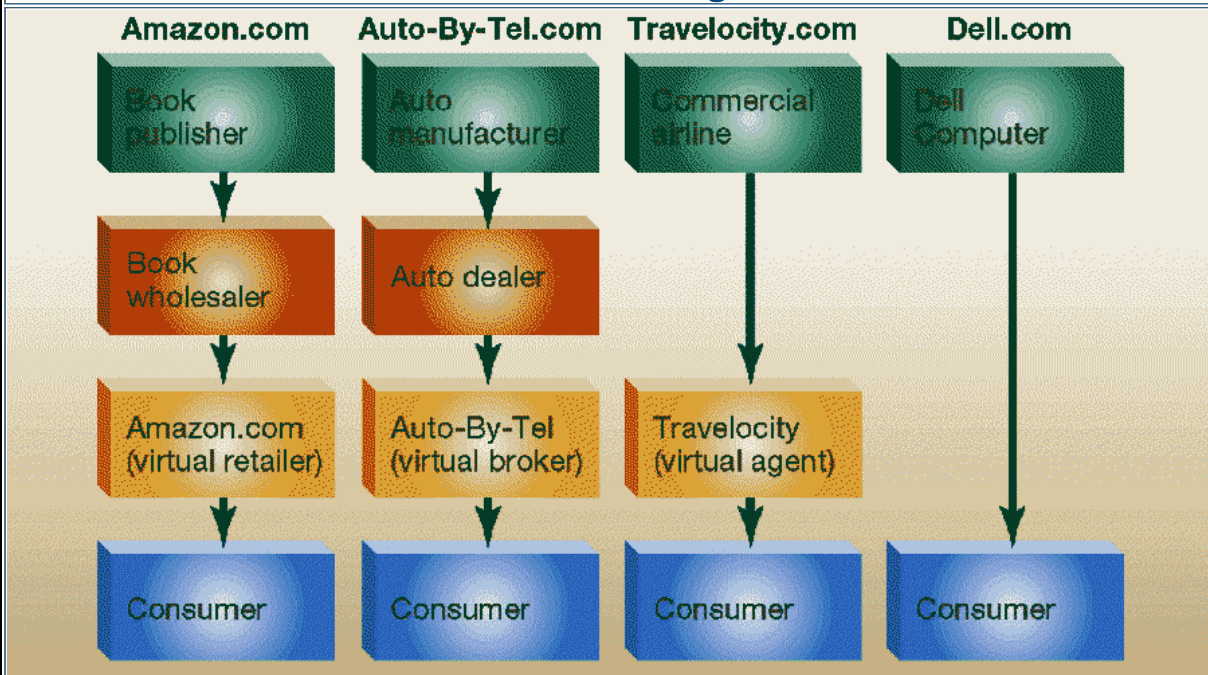
B. Marketing Channels for Business Goods and Services

Industrial Product Channels

| Direct Channel | Industrial Distributor | Agent Broker Channel | Agent Broker Industrial |
|----------------------------|------------------------|----------------------|-------------------------|
| Producer | Producer | Producer | Producer |
| ↓ | ↓ | ↓ | ↓ |
| | | Agent or Broker | Agent or Broker |
| | | ↓ | ↓ |
| | | | Wholesaler |
| | | | ↓ |
| | Distributor | | Distributor |
| | ↓ | | ↓ |
| Industrial Consumer | Industrial Consumer | Industrial Consumer | Industrial Consumer |
| Large, well defined buyers | Distributor performs | | |

| | | | |
|--|---|---|--------------------------|
| Extensive negotiations High unit value products Hands-on expertise in terms of installation. | channel functions, selling, stocking, and delivering a full product assortment and financing. Like wholesalers in consumer channels. | Agent, serves primarily as the independent selling arm of producers Represents a producer to industrial users. | Agents and distributors. |
|--|---|---|--------------------------|

C. Electronic Marketing Channels



- Using the Internet to make goods & services available to consumers or business buyers.
- Combine electronic and traditional intermediaries to create utility.
- Electronic intermediaries can not perform some logistical functions
- Inability of many electronic intermediaries to master the logistical function in a cost-effective manner contributed to their demise in the “dot-com crash” of 2001.

D. Direct Marketing Channels

- Allow consumers to buy products by interacting with various advertising media without a face-to-face meeting with a salesperson.
- U.S. sales revenue attributed to direct marketing channels exceeds \$1.7 trillion.
- These channels account for
 - 20% of all retail transactions in the U.S.
 - 10% of those in Europe.

E. Multiple Channels and Strategic Alliances

| | |
|-------------------|---|
| Dual distribution | • A firm reaches different buyers by employing two or more different types of channels for the same basic product |
| Multiple channels | • may be paired with a multibrand strategy to minimize cannibalization of the firm's family brand |

| | |
|------------------------------------|--|
| | and to differentiate channels. |
| Strategic channel alliances | <ul style="list-style-type: none"> One firm's marketing channel is used to sell another firm's products. Popular in global marketing, where the creation of marketing channel relationships is expensive and time consuming. |

Types of Channel Intermediaries

Merchant Wholesalers - Take Title

| MERCHANT WHOLESALERS | | | | | | | | | |
|--|----------------------|------------------------|-----------------|----------------|---------------|---------------|------------------------|----------------|---------|
| FUNCTIONS PERFORMED | FULL SERVICE | | LIMITED SERVICE | | | | AGENTS AND BROKERS | | |
| | GENERAL MERCHAN-DISE | SPECIALTY MERCHAN-DISE | RACK JOBBERS | CASH AND CARRY | DROP SHIPPERS | TRUCK JOBBERS | MANUFAC-TURER'S AGENTS | SELLING AGENTS | BROKERS |
| Transactional functions | | | | | | | | | |
| Buying | ●★ | ● | ● | ● | ● | ● | ● | ● | ● |
| Sales calls on customers | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| Risk taking (taking title to products) | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| Logistical functions | | | | | | | | | |
| Creates product assortments | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| Stores products (maintains inventory) | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| Sorts products | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| Transports products | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| Facilitating functions | | | | | | | | | |
| Provides financing (credit) | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| Provides market information and research | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| Grading | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| ★ Key: ● Yes ● Sometimes ● No | | | | | | | | | |

Full-service merchant wholesalers

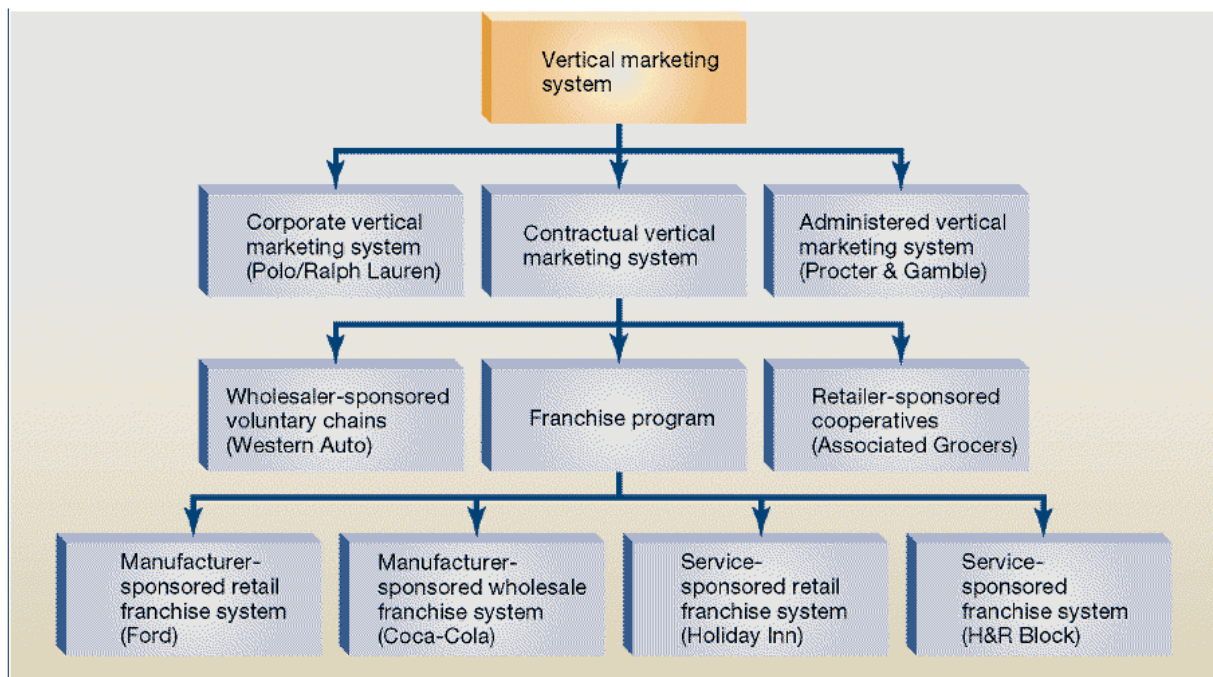
| | |
|--|---|
| General merchandise (or full-line) | <ul style="list-style-type: none"> Carry a broad assortment of merchandise Perform all channel functions. |
| Specialty merchandise (or limited-line) | <ul style="list-style-type: none"> Relatively narrow range of products Extensive assortment within lines carried. Perform all channel functions. |

Limited-service wholesalers

| | |
|--|---|
| | <ul style="list-style-type: none"> Furnish racks that display merchandise in stores Perform all channel functions |
|--|---|

| | |
|--|--|
| Rack jobbers | <ul style="list-style-type: none"> • Sell on consignment to retailers <ul style="list-style-type: none"> ◦ Retain the title to the products displayed ◦ Bill retailers only for the product sold. |
| Cash and carry wholesalers | <ul style="list-style-type: none"> • Take title to merchandise • Sell only to buyers <ul style="list-style-type: none"> ◦ Who call on them ◦ Pay cash for merchandise ◦ Furnish their own shipping. |
| Drop shippers desk jobbers, | <ul style="list-style-type: none"> • Own the merchandise they sell • Do not physically handle, stock, or deliver it. • Solicit orders • Have the merchandise shipped directly from producer to buyer. |
| Truck jobbers | <ul style="list-style-type: none"> • Small wholesalers with a small warehouse • Stock their trucks for distribution to retailers. • Usually handle <ul style="list-style-type: none"> ◦ limited assortments ◦ Fast-moving or perishable items ◦ Sold for cash directly from trucks in their original packages. |
| Agents and Brokers - Do Not Take Title | |
| Manufacturer's agents Manufacturer's reps | <ul style="list-style-type: none"> • Work for several producers • Carry noncompetitive, complementary merchandise in an exclusive territory. |
| Selling agents | <ul style="list-style-type: none"> • Represent a single producer • Are responsible for the entire marketing function of that producer. |
| Brokers | <ul style="list-style-type: none"> • Independents whose principal function is to bring buyers and sellers together to make sales. • No continuous relationship with buyer or seller • Negotiate a contract between the two parties and then move on. |
| 3. Manufacturer's Branches and Offices | |
| Manufacturer's branch office | <ul style="list-style-type: none"> • Carries a producer's inventory • Performs the functions of a full-service wholesaler. |
| Manufacturer's sales office | <ul style="list-style-type: none"> • Does not carry inventory • Typically performs only a sales function • Serves as an alternative to agents and brokers. |

Vertical Marketing Systems and Channel Partnerships



| | | | |
|----------------------|--|------------|---|
| Corporate Systems | Successive stages of production and distribution under a single ownership | | |
| | Forward integration | • | Producer owns an intermediary at the next level down in the channel. |
| | Backward integration | • | Retailer owns a manufacturing operation. |
| Contractual Systems | <ul style="list-style-type: none"> • Production & distribution firms integrate their efforts on a contractual basis • Greater functional economies • Greater marketing impact. | | |
| | Wholesaler-sponsored voluntary chains | • | Wholesaler develops a contractual relationship retailers Standardize and coordinate <ul style="list-style-type: none"> ◦ buying practices ◦ merchandising programs ◦ inventory management. |
| | Retailer-sponsored cooperatives | • | Retailers organize to operate a wholesale facility. |
| | Franchising | Franchisor | the parent company |
| | | Franchisee | an individual or firm |
| Administered Systems | Contractual arrangement lets the franchisee <ul style="list-style-type: none"> • Operate a specific business • Under an established name • According to specific rules. | | |
| | <ul style="list-style-type: none"> • Size and influence of one channel member mandates cooperation. | | |

| | |
|-----------------------------|--|
| Channel Partnerships | <ul style="list-style-type: none"> • Similar to supply partnerships (Chapter 6). • Agreements & procedures among channel members <ul style="list-style-type: none"> ◦ Ordering & physically distributing a producer's products through the channel to the ultimate consumer. ◦ Collaborative use of information and communication technology ◦ Better serve customers ◦ Reduce the time and cost of performing channel functions. |
|-----------------------------|--|

CHANNEL CHOICE AND MANAGEMENT

• Factors Affecting Channel Choice and Management

| | |
|------------------------------|--|
| Environmental Factors | <ul style="list-style-type: none"> • General economic conditions • Changing family lifestyles • Technological advance • Market size • Competition |
| Consumer Factors | <ul style="list-style-type: none"> • Who are your customers? • Where do they buy? • How do they buy?. |
| Product Factors | <ul style="list-style-type: none"> • Product sophistication • Product Unit value • Product Standardization • Stage in the life cycle • Price |
| Company Factors | <ul style="list-style-type: none"> • Financial capabilities • Human capabilities • Technological capabilities. • Managerial capabilities • Marketing Resources • Number of product lines • Desire for control of marketing channels |

B. Channel Design Considerations

1. Target Market Coverage

| | |
|-------------------------------|---|
| Intensive distribution | <ul style="list-style-type: none"> • Try to place its product or services in as many outlets as possible. • Little manufacturer control • Convenience goods • Supplies • Low-value • Frequently purchased • may require a long channel of distribution |
| Exclusive | <ul style="list-style-type: none"> • Establish one or a few dealers within an area. <ul style="list-style-type: none"> ◦ Consumer specialty goods ◦ Some shopping goods ◦ Major industrial equipment. |

| | |
|---|--|
| distribution | <ul style="list-style-type: none"> Creates image of exclusiveness for the product. Usually chosen for specialty goods. Maximum manufacturer control |
| Selective distribution | <ul style="list-style-type: none"> A few retail outlets Better coverage Some manufacturer control |
| 2. Satisfying Buyer Requirements | |
| Information | <ul style="list-style-type: none"> Do buyers have limited knowledge or desire specific data about a product or service? |
| Convenience | <ul style="list-style-type: none"> Proximity or driving time to a retail outlet Amount of time and hassle. Websites must be easy to locate and navigate and downloads must be fast. |
| Variety | <ul style="list-style-type: none"> Buyers' interest in having the choice of numerous items. Breadth and depth of products and brands. |
| Attendant services | <ul style="list-style-type: none"> Delivery requirements Installation requirements Credit requirements. |
| 3. Profitability | |
| <ul style="list-style-type: none"> Distribution costs Advertising costs Selling expenses | |

Global Dimensions of Marketing Channels

| | | |
|--|---|--|
| Manufacturers introducing products in global markets must determine what type of channel structure to use. |  | <ul style="list-style-type: none">Channel structure not be very similar to channels in the United States.Channel types available in differ as well" |
| Grey Marketing | <ul style="list-style-type: none">selling products through distribution channels that are not authorized by the trademark holder. | |
| Diverting | <ul style="list-style-type: none">Gray marketing within a market | |
| Parallel Importing | <ul style="list-style-type: none">Gray marketing across international markets | |
| <ul style="list-style-type: none">It is almost impossible to determine the scale of grey market sellingEstimated \$10-15 billion worth of goods per year through gray market channels in the United States. | | |
| Global trade growth requires a well-thought-out global logistics strategy. | | |
| <ul style="list-style-type: none">What are the legalities of trade in other countries? | | |

- What is the transportation infrastructure?

Channel Relationships: Conflict, Cooperation, and Law

Conflict in Marketing Channels

| | |
|---------------------|--|
| Vertical conflict | <ul style="list-style-type: none"> • disintermediation - channel member bypasses another member • Disagreements over how profit margins. • manufacturers believe wholesalers or retailers are not giving their products adequate attention. |
| Horizontal conflict | <ul style="list-style-type: none"> • Manufacturer increases its distribution coverage in a geographical area. • Dual distribution causes conflict when different types of retailers carry the same brands. |

2. Cooperation in Marketing Channels

| | |
|-----------------------------|---|
| Channel captain | a channel member that coordinates, directs, and supports other channel members |
| Source of influence (power) | <ul style="list-style-type: none"> • Economic influence. • Expertise. • Strong brand Identification • Legitimate (contractual) right of one channel member to direct behavior of others |

3. Legal Considerations

| | |
|----------------------|--|
| Dual distribution | <ul style="list-style-type: none"> • Not specifically illegal • Can be seen as anticompetitive under Sherman & Clayton Acts. |
| Vertical integration | <ul style="list-style-type: none"> • Can be seen as anticompetitive under Sherman & Clayton Acts.. |
| Exclusive dealing | <ul style="list-style-type: none"> • Requirements for channel members to sell only one supplier's products • Restrictions on distributors from selling directly competitive products. • Prohibited under the Clayton Act when it lessens competition or creates monopolies. |
| Tying arrangements | <ul style="list-style-type: none"> • Distributor must purchase some products in order to buy others. • Prohibited under the Clayton Act • Illegal if the tied products could be purchased at fair market values from other suppliers at the desired quality standard. |
| Resale restrictions | <ul style="list-style-type: none"> • Supplier's attempt to stipulate <ul style="list-style-type: none"> ◦ to whom distributors may resell the suppliers' products ◦ in what specific geographic areas or territories they may be sold. • These practices have been prosecuted under the |

Sherman Act.

- Today courts apply the “rule of reason” and consider whether such restrictions have a demonstrable economic effect.

Even though a supplier has a legal right to choose intermediaries, a refusal to deal with existing channel members may be illegal under the Clayton Act.

