

DESIGNING DISTRIBUTION CHANNEL DECISIONS

WHY DO MULTI FIRM MARKETING CHANNELS EXIST?

- Middlemen often perform the needed functions at a lower cost than either the customer or the manufacturer could by themselves.
- The first step in designing a distribution channel for a given product is to determine what objectives the channel must accomplish and their relative importance.

DESIGNING DISTRIBUTION CHANNELS: WHAT ARE THE OBJECTIVES TO BE ACCOMPLISHED?

- Objectives of distribution channels:
 - Increase the availability of the good or service to potential customers.
 - Satisfy customer requirements by providing high levels of service.
 - Ensure promotional effort.
 - Obtain timely and detailed market information.
 - Increase cost- effectiveness.
 - Maintain flexibility.

DESIGNING DISTRIBUTION CHANNELS: WHAT ARE THE OBJECTIVES TO BE ACCOMPLISHED?

- Product availability
 - The most important objective for a channel.
 - For consumer goods, two aspects of availability must be considered.
 - Attain the desired level of coverage in terms of appropriate retail outlets.
 - The item's positioning within the store

DESIGNING DISTRIBUTION CHANNELS: WHAT ARE THE OBJECTIVES TO BE ACCOMPLISHED?

- Meeting customers' service requirements
 - Crucial objective for analyzer and defender businesses attempting to differentiate themselves on service dimensions.
 - Some the service requirements include:
 - Order cycle time
 - Dependability
 - Communication between buyer and seller
 - Convenience
 - Post sale services

DESIGNING DISTRIBUTION CHANNELS: WHAT ARE THE OBJECTIVES TO BE ACCOMPLISHED?

- Promotional effort
 - Obtain promotional support from channel members for the firm's product.
- Market information
 - Middlemen are often relied on for fast and accurate feedback.
 - A high level of channel feedback is particularly important for firms in highly competitive industries.
 - Feedback is crucial for prospectors.

DESIGNING DISTRIBUTION CHANNELS: WHAT ARE THE OBJECTIVES TO BE ACCOMPLISHED?

- Cost-effectiveness
 - Important to businesses pursuing low-cost analyzer or defender strategies.
- Flexibility
 - Firms pursuing prospector strategies in new or rapidly growing or technically turbulent product categories, consider this important.
 - A flexible channel is one where it is relatively easy to switch channel structures or add new types of middlemen.

CHANNEL FUNCTIONS

- Bulk breaking
- Spatial convenience
- Waiting time
- Assortment
- Installation support
- After sales support
- Consumer financing

Institutions Found in Marketing Channels

Institution	Definition
Merchant wholesalers	Take title to the goods they handle; sell primarily to other resellers (e.g., retailers), industrial and commercial customers rather than to individual consumers.
Agent middlemen	Include manufacturer's representatives and brokers. Also sell to other resellers, industrial or commercial customers, but do not take title to the goods. Usually specialize in the selling function and represent client manufacturers on a commission basis.
Retailers	Sell goods and services directly to ultimate consumers for their personal, nonbusiness use. Usually take title to goods they handle; are compensated by the margin between the price they pay for those goods and the price they receive from their customers.
Facilitating agencies	Include advertising agencies, marketing research firms, collection agencies, trucking firms, and railroads; specialize in one or more marketing functions, work on a fee-for-service basis to help clients perform those functions more effectively and efficiently.

DESIGNING DISTRIBUTION CHANNELS: WHAT KINDS OF INSTITUTIONS MIGHT BE INCLUDED?

- Merchant Wholesalers
 - Some types of merchant wholesalers engage in a full range of wholesaling functions while others specialize in only limited services.
 - Both buy goods from various suppliers and then resell those goods to their commercial customers, either industrial buyers or other resellers such as a retailer.

DESIGNING DISTRIBUTION CHANNELS: WHAT KINDS OF INSTITUTIONS MIGHT BE INCLUDED?

- Agent middlemen do not take title to, or physical possession of, the goods they deal in.
 - Manufacturer's agents or manufacturer's reps
 - Sales agents
 - Brokers

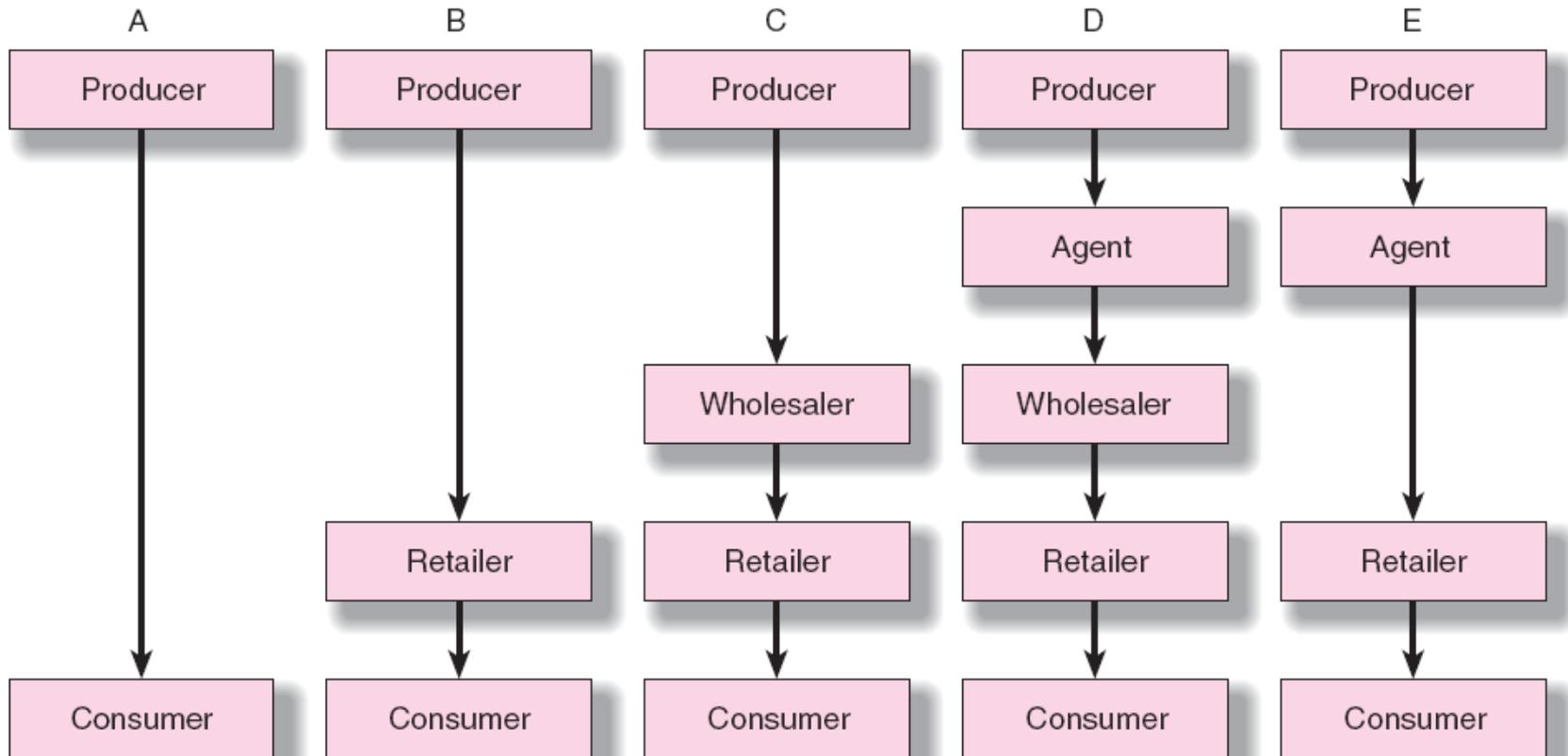
DESIGNING DISTRIBUTION CHANNELS: WHAT KINDS OF INSTITUTIONS MIGHT BE INCLUDED?

- Retailers
 - Sell goods and services directly to final consumers for their personal, non business use.
 - One classification scheme groups stores according to their method of operation:
 - Low margin/high turnover
 - High margin/low turnover

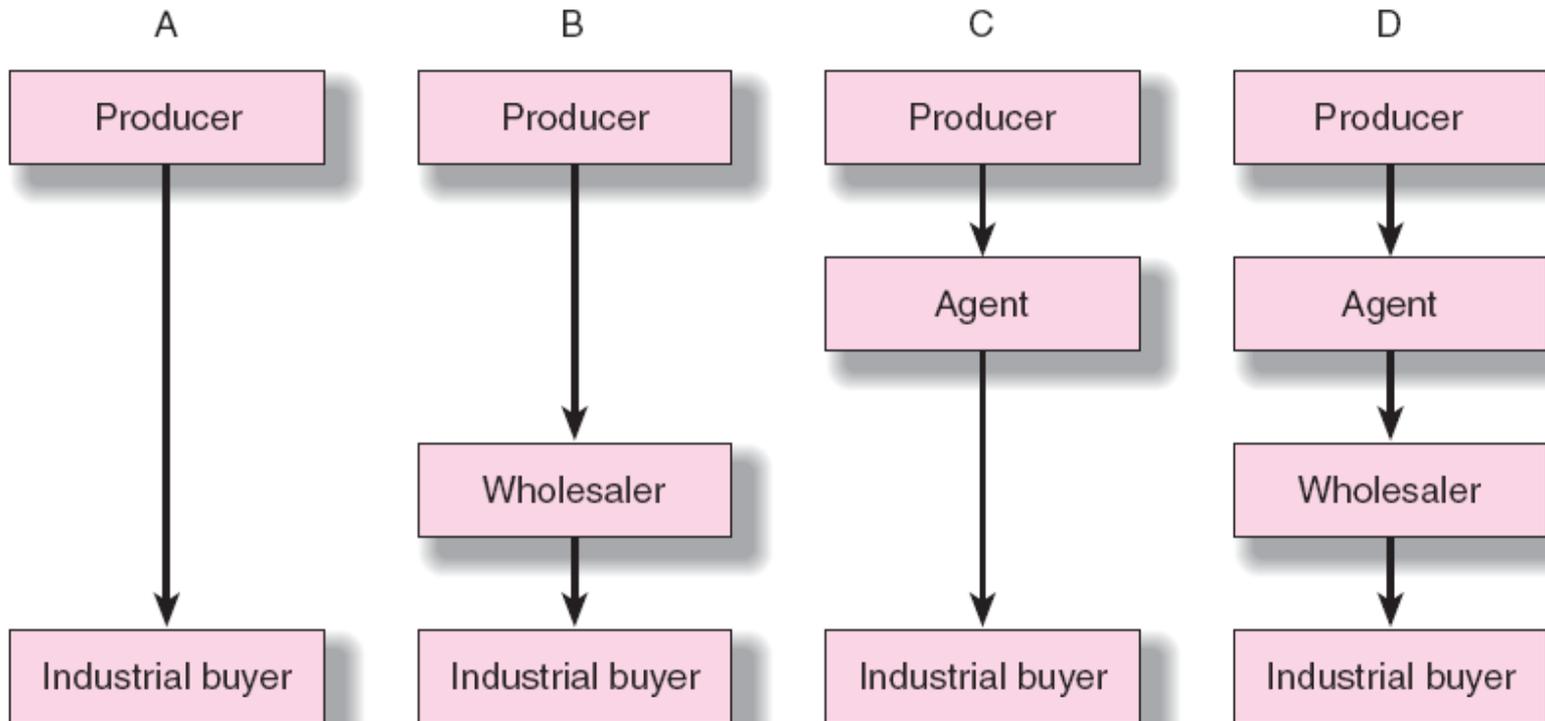
DESIGNING DISTRIBUTION CHANNELS: WHAT KINDS OF INSTITUTIONS MIGHT BE INCLUDED?

- Nonstore Retailing
 - Includes direct selling, mail-order catalogs, TV shopping, vending machines, and Web sites.
 - Auction sites facilitate retail start-ups.

MARKETING CHANNELS FOR CONSUMER GOODS AND SERVICES



MARKETING CHANNELS FOR INDUSTRIAL GOODS AND SERVICES



WHICH ALTERNATIVE IS BEST?

- There are trade-offs among the various objectives a company might try to accomplish with its distribution channel.
- The decision depends on:
 - Which distribution objectives are considered most important,
 - Which is influenced by the business's competitive strategy and the other components of the marketing program.

WHICH ALTERNATIVE IS BEST?

- Consumer goods and services - Three basic strategies of retail coverage:
 - Intensive Distribution
 - Exclusive Distribution
 - Selective Distribution

Comparison of Intensive, Exclusive, and Selective Retail Coverage Strategies

	Retail coverage	Major strength	Major weakness	Products most appropriate for
Intensive	Maximum	Maximizes product availability	Lack of retailer support	Low-involvement consumer convenience goods
Exclusive	Single	Matches retailer clientele with target market; facilitates close cooperation with retailer	Risk of relying on single retailer	High-involvement specialty or shopping goods
Selective	Limited	Provides adequate coverage but not at expense of manufacturer–retailer cooperation	Difficult to implement given interstore competition, especially where discounts may occur	Infrequently purchased shopping goods

WHICH ALTERNATIVE IS BEST?

- Cost-effectiveness
 - Minimizing physical distribution costs subject to the constraint of achieving some target level of product availability and customer service.
 - Make-or-buy decisions
 - Supply chain management

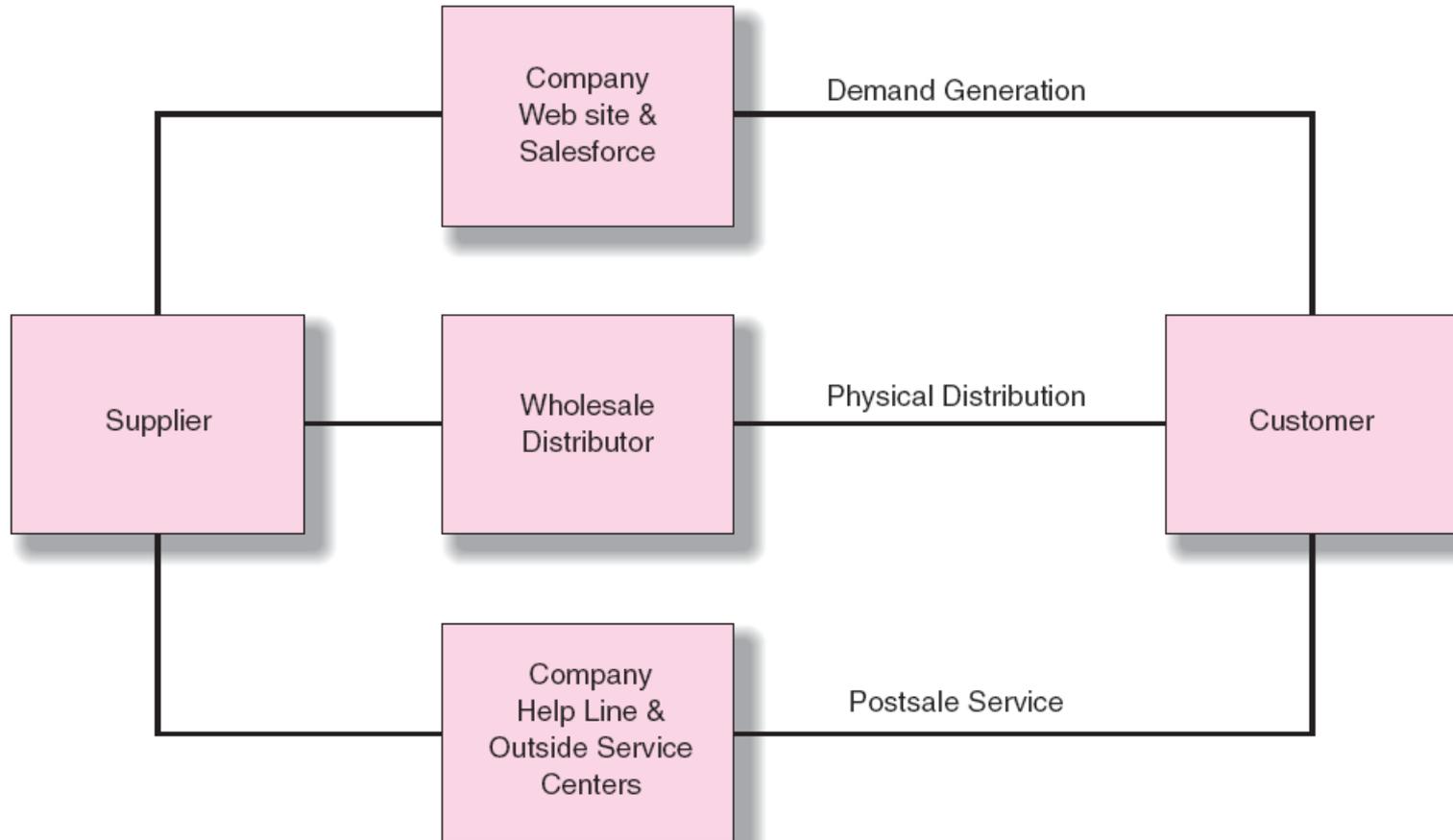
WHICH ALTERNATIVE IS BEST?

- Flexibility
 - Generally, vertically integrated systems are difficult to alter quickly.
 - Channels involving independent middlemen are often more flexible.

Which Alternative Is Best?

- Multichannel distribution
 - Companies are increasingly using multiple channels.
 - Some use dual distribution systems.
 - Hybrid system is a variation.
 - Multichannel systems employ separate channels to reach different target segments.
 - Members of a hybrid system perform complementary functions for the same customer segment.

Example of a Hybrid Marketing Channel



Channel Design for Global Markets

- Market entry strategies
 - Exporting is simple because it involves the least commitment and risk.
 - Contractual entry modes are nonequity arrangements that involve the transfer of technology and/or skills to an entity in a foreign country.
 - Overseas direct investment can be implemented in two ways—through joint ventures or sole ownership.

Channel Design for Global Markets

- Contractual entry modes:
 - Licensing
 - Franchising
 - Include contract manufacturing
 - Coproduction
 - Countertrade

Channel Design for Global Markets

- Channel alternatives
 - The use of domestic middlemen who provide marketing services from a domestic base.
 - The use of foreign middlemen.

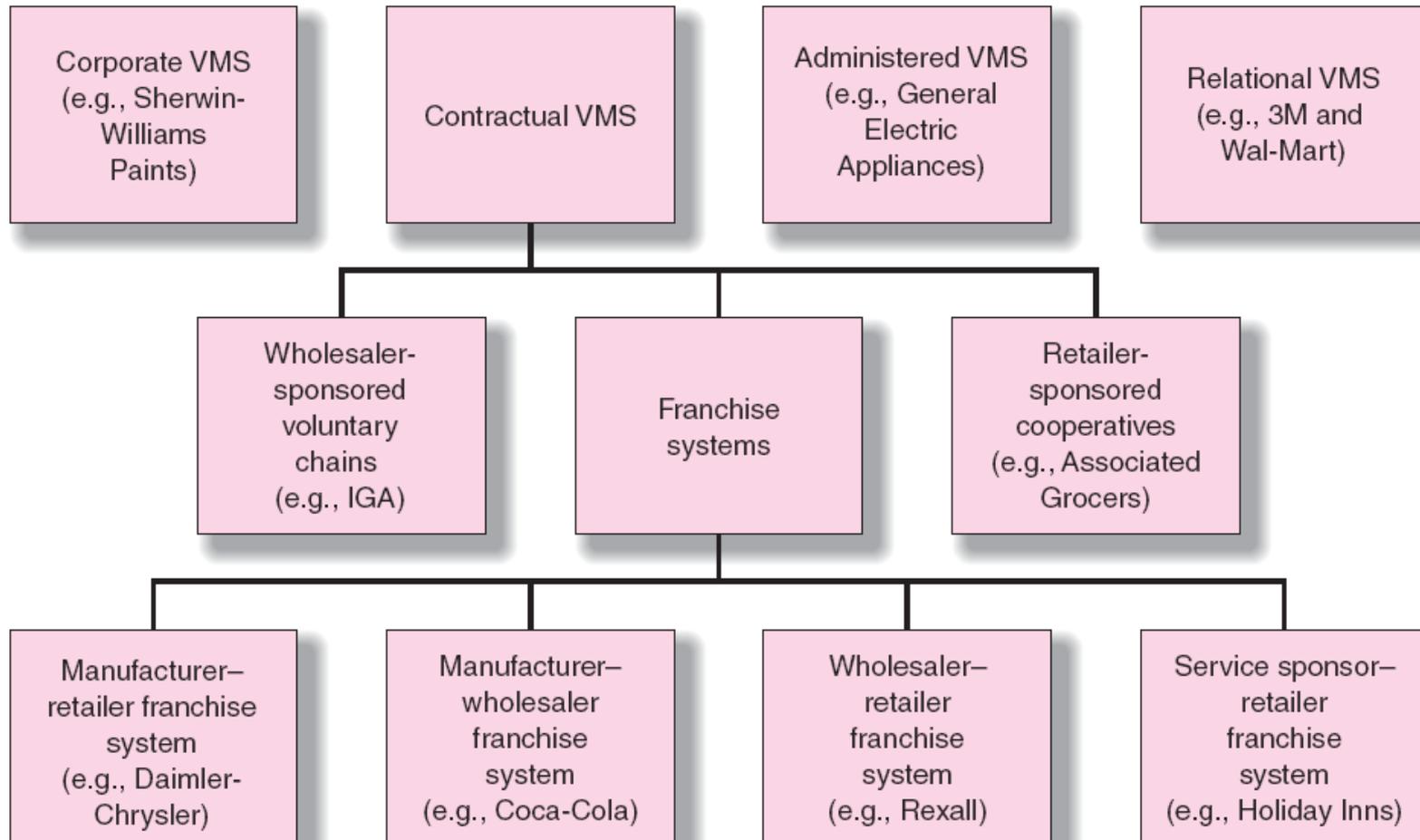
Channel Design for Services

- Channel alternatives
 - Ordinarily, the marketing of services does not require the same kind of distribution networks as does the marketing of tangible goods.
 - Marketing channels for services tend to be short—hence the emphasis on franchising.

Channel Management Decision

- Vertical Marketing Systems
 - Corporate VMSs
 - Contractual VMSs
 - Administered VMSs
 - Relational VMSs

Vertical Marketing Systems



Channel Management Decision

- Sources of channel power
 - Economic power
 - Coercive power
 - Expert power
 - Referent power
 - Legitimate power
- The power of any firm within a distribution channel is inversely proportional to how dependent the other channel members are on that firm.

Channel Management Decision

- Channel control strategies
 - Pull Strategy
 - Push Strategy

Channel Management Decision

- Trade promotions
 - Manufacturers typically use a combination of incentives to gain reseller support and push their products through the channel.
 - Most of these incentives constitute sales promotion activities.
 - Categories of sales promotion activities:
 - Consumer promotions
 - Trade promotions

Channel Management Decision

- Trade promotions
 - Incentives to increase reseller purchases and inventories
 - Incentives to increase personal selling effort
 - Incentives to increase local promotional effort
 - Incentives to improve customer service
 - The changing role of incentives in relational distribution systems

Channel Management Decision

- Channel conflicts and resolution strategies
 - Regardless of how well a manufacturer administers its channel system, some amount of channel conflict is inevitable.
 - Some conflict is essential if members are to adapt to change.
 - Conflict should result in more effective and efficient channel performance, provided it does not become destructive.

Take-Aways

- The importance of good distribution decisions in designing a marketing plan is simple: Customers won't buy your good or service unless it is conveniently available when and where they want to buy it.

Take-Aways

- Distribution channel decisions have a major economic impact because distribution costs often exceed the costs of producing a good or service.

Take-Aways

- A manufacturer or service provider can attempt to gain the support and direct the efforts of its channel partners:
 - Through vertical integration,
 - By legal contracts,
 - By providing economic incentives, and/or
 - By developing mutually beneficial relationships based on trust and the expectation of future benefits.