

PRINCIPLES OF
Marketing

Chapter Twelve

Marketing Channels: Delivering Customer Value



Marketing Channels: Delivering Customer Value

Topic Outline

- Supply Chains and the Value Delivery Network
- The Nature and Importance of Marketing Channels
- Channel Behavior and Organization
- Channel Design Decisions
- Channel Management Decisions
- Public Policy and Distribution Decisions
- Marketing Logistics and Supply Chain Management



Supply Chains and the Value Delivery Network

Supply Chain Partners

Upstream partners include raw material suppliers, components, parts, information, finances, and expertise to create a product or service

Downstream partners include the marketing channels or distribution channels that look toward the customer



Supply Chains and the Value Delivery Network

Supply Chain Views

Supply chain “make and sell” view includes the firm’s raw materials, productive inputs, and factory capacity

Demand chain “sense and respond” view suggests that planning starts with the needs of the target customer, and the firm responds to these needs by organizing a chain of resources and activities with the goal of creating customer value



Supply Chains and the Value Delivery Network

Value Delivery Network

Value delivery network is the firm's suppliers, distributors, and ultimately customers who partner with each other to improve the performance of the entire system



The Nature and Importance of Marketing Channels

How Channel Members Add Value

Intermediaries offer producers greater efficiency in making goods available to target markets. Through their contacts, experience, specialization, and scale of operations, intermediaries usually offer the firm more than it can achieve on its own.



The Nature and Importance of Marketing Channels

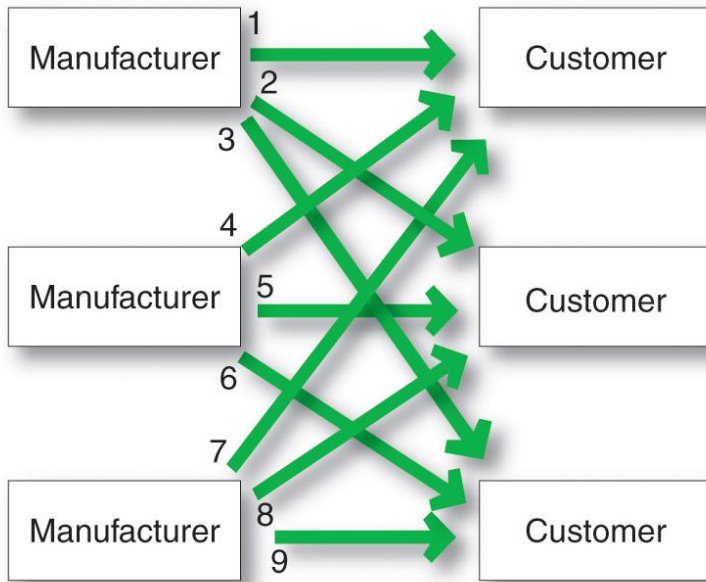
How Channel Members Add Value

- From an economic view, intermediaries transform the assortment of products into assortments wanted by consumers
- Channel members add value by bridging the major time, place, and possession gaps that separate goods and services from those who would use them

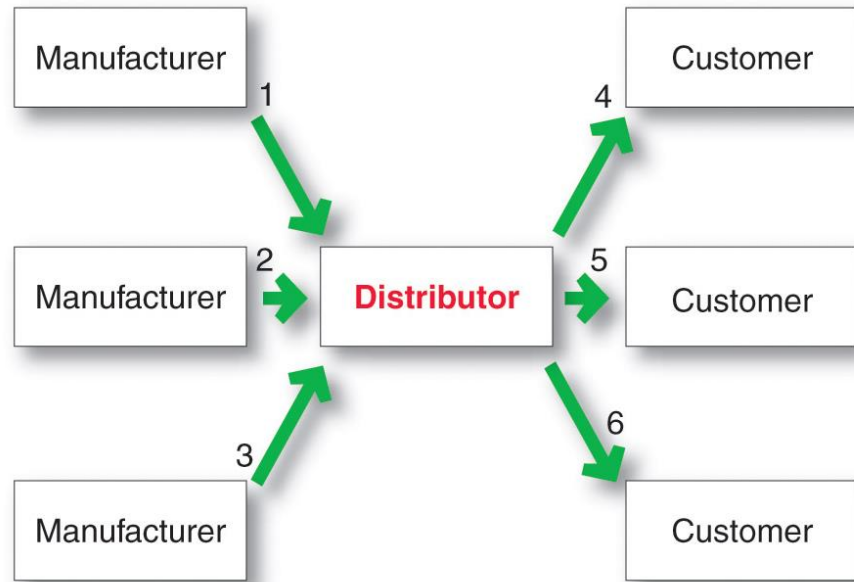


The Nature and Importance of Marketing Channels

How Channel Members Add Value



A. Number of contacts without a distributor
 $M \times C = 3 \times 3 = 9$



B. Number of contacts with a distributor
 $M + C = 3 + 3 = 6$



The Nature and Importance of Marketing Channels

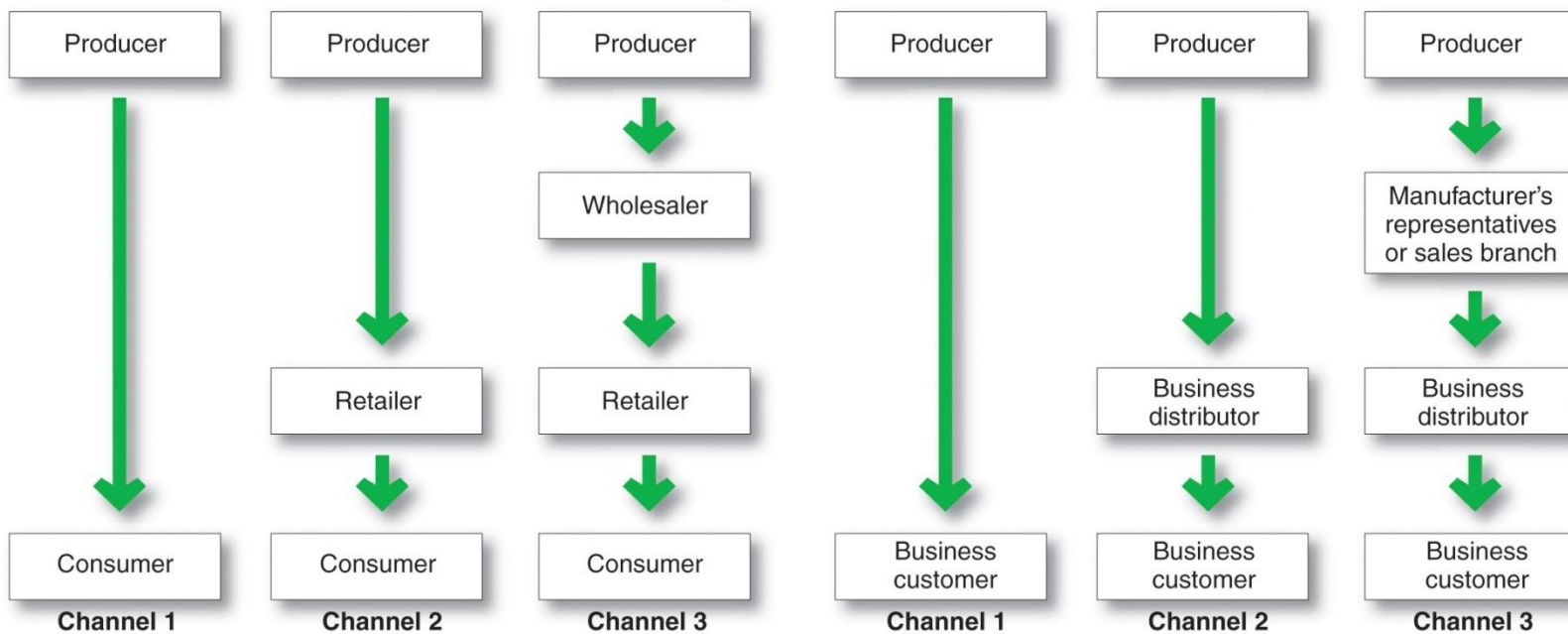
How Channel Members Add Value





The Nature and Importance of Marketing Channels

Number of Channel Levels



A. Customer marketing channels

B. Business marketing channels



The Nature and Importance of Marketing Channels

Number of Channel Levels

Connected by types of flows:

- Physical flow of products
- Flow of ownership
- Payment flow
- Information flow
- Promotion flow



Channel Behavior and Organization

Channel Behavior

Marketing channel consists of firms that have partnered for their common good with each member playing a specialized role

Channel conflict refers to disagreement over goals, roles, and rewards by channel members

- Horizontal conflict
- Vertical conflict



Channel Behavior and Organization

Conventional Distributions Systems

Conventional distribution systems consist of one or more independent producers, wholesalers, and retailers. Each seeks to maximize its own profits, and there is little control over the other members and no formal means for assigning roles and resolving conflict.



Channel Behavior and Organization

Vertical Marketing Systems

Vertical marketing systems (VMSs) provide channel leadership and consist of producers, wholesalers, and retailers acting as a unified system and consist of:

- Corporate marketing systems
- Contractual marketing systems
- Administered marketing systems



Channel Behavior and Organization

Vertical Marketing Systems

Corporate vertical marketing system integrates successive stages of production and distribution under single ownership



Channel Behavior and Organization

Vertical Marketing Systems

Contractual vertical marketing system consists of independent firms at different levels of production and distribution who join together through contracts to obtain more economies or sales impact than each could achieve alone. The most common form is the franchise organization.



Channel Behavior and Organization

Vertical Marketing Systems

Franchise organization links several stages in the production distribution process

- Manufacturer-sponsored retailer franchise system
- Manufacturer-sponsored wholesaler franchise system
- Service firm-sponsored retailer franchise system



Channel Behavior and Organization

Vertical Marketing Systems

Administered vertical marketing system has a few dominant channel members without common ownership. Leadership comes from size and power.



Channel Behavior and Organization

Horizontal Marketing System

Horizontal marketing systems are when two or more companies at one level join together to follow a new marketing opportunity. Companies combine financial, production, or marketing resources to accomplish more than any one company could alone.



Channel Behavior and Organization

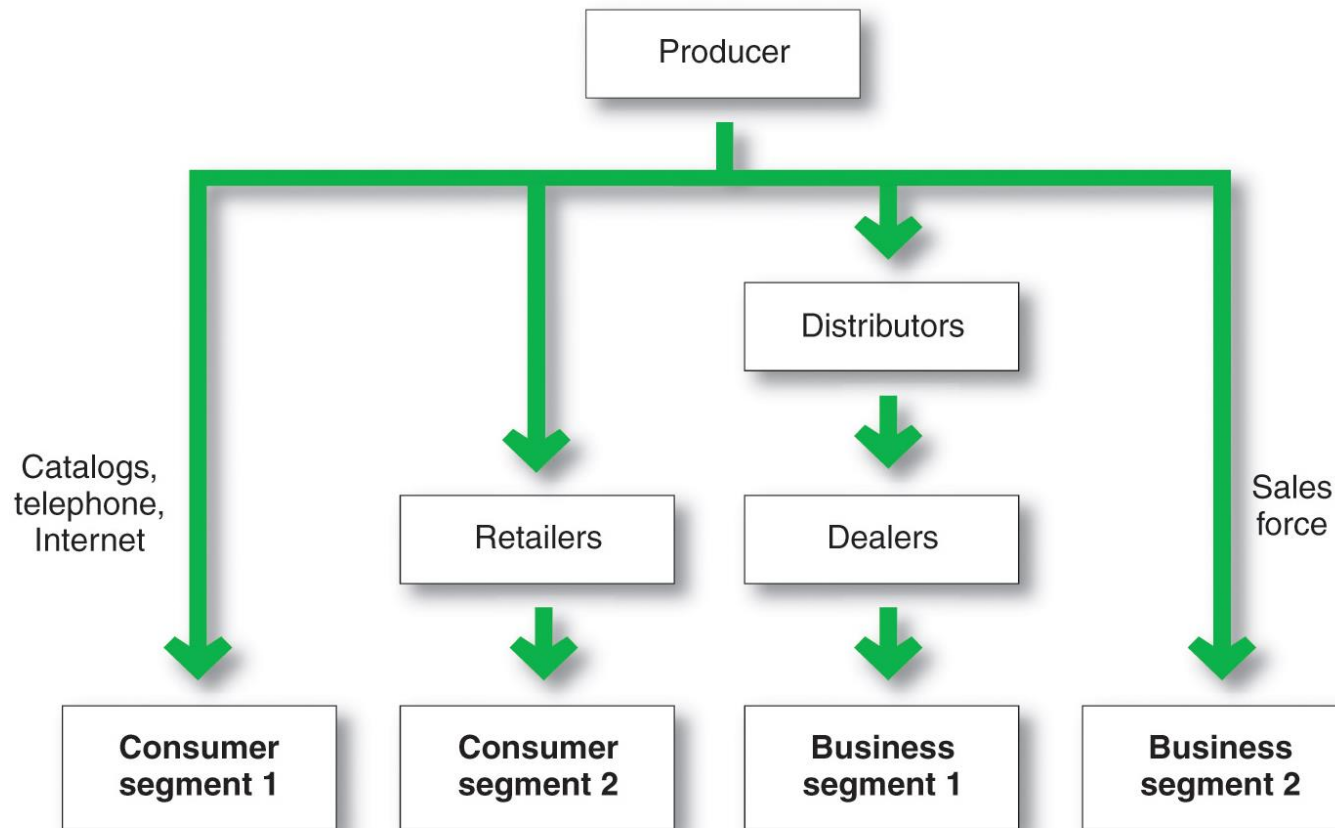
Multichannel Distribution Systems Hybrid Marketing Channels

Multichannel Distribution systems (Hybrid marketing channels) are when a single firm sets up two or more marketing channels to reach one or more customer segments



Channel Behavior and Organization

Multichannel Distribution System



Channel Behavior and Organization

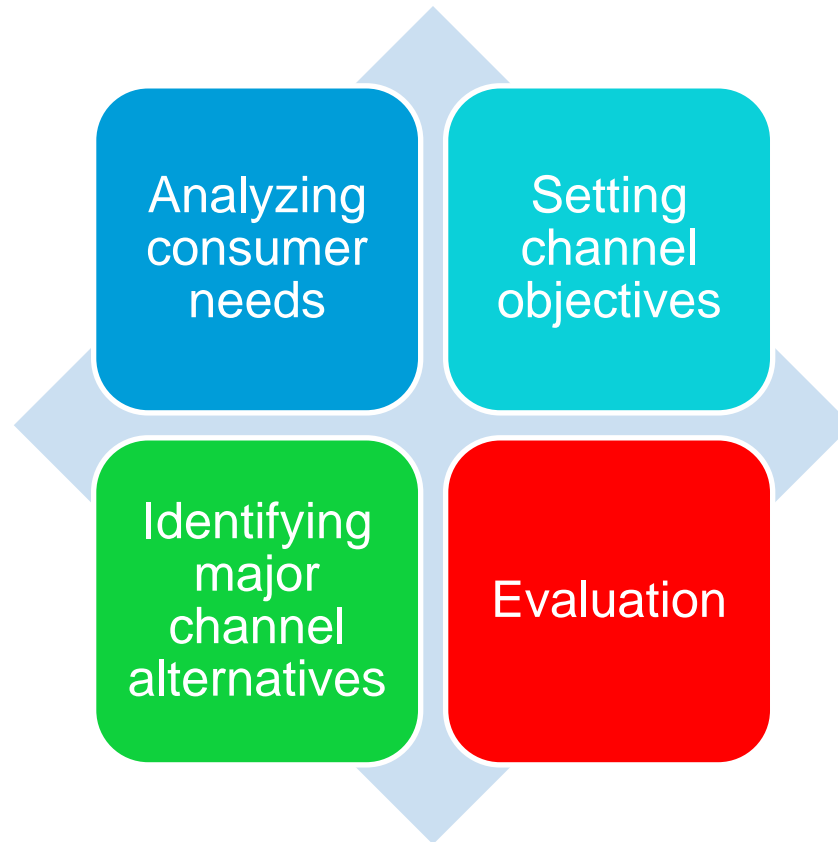
Changing Channel Organization



Disintermediation occurs when product or service producers cut out intermediaries and go directly to final buyers, or when radically new types of channel intermediaries displace traditional ones



Channel Design Decisions



Channel Design Decisions

Setting Channel Objectives

- Targeted levels of customer service
- What segments to serve
- Best channels to use
- Minimizing the cost of meeting customer service requirements



Channel Design Decisions

Identifying Major Alternatives

- Types of intermediaries
- Number of marketing intermediaries
- Responsibilities of channel members



Channel Design Decisions

Identifying Major Alternatives

Intensive distribution

- Candy and toothpaste

Exclusive distribution

- Luxury automobiles and prestige clothing

Selective distribution

- Television and home appliance



Channel Design Decisions

Evaluating the Major Alternatives

Each alternative should be evaluated against:

- Economic criteria
- Control
- Adaptive criteria



Channel Design Decisions

Designing International Distribution Channels

- Channel systems can vary from country to country
- Must be able to adapt channel strategies to the existing structures within each country



Channel Management Decisions

Selecting
channel
members

Managing
channel
members

Motivating
channel
members

Evaluating
channel
members



Public Policy and Distribution Decisions

Exclusive distribution is when the seller allows only certain outlets to carry its products

Exclusive dealing is when the seller requires that the sellers not handle competitor's products

Exclusive territorial agreements are where producer or seller limit territory

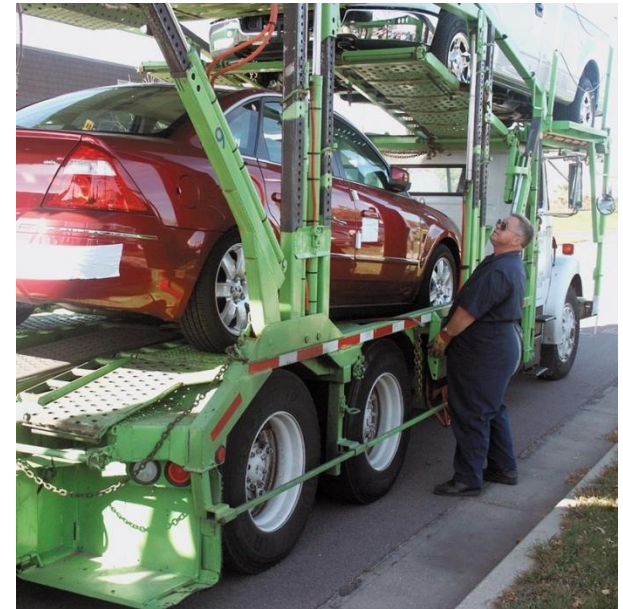
Tying agreements are agreements where the dealer must take most or all of the line



Marketing Logistics and Supply Chain Management

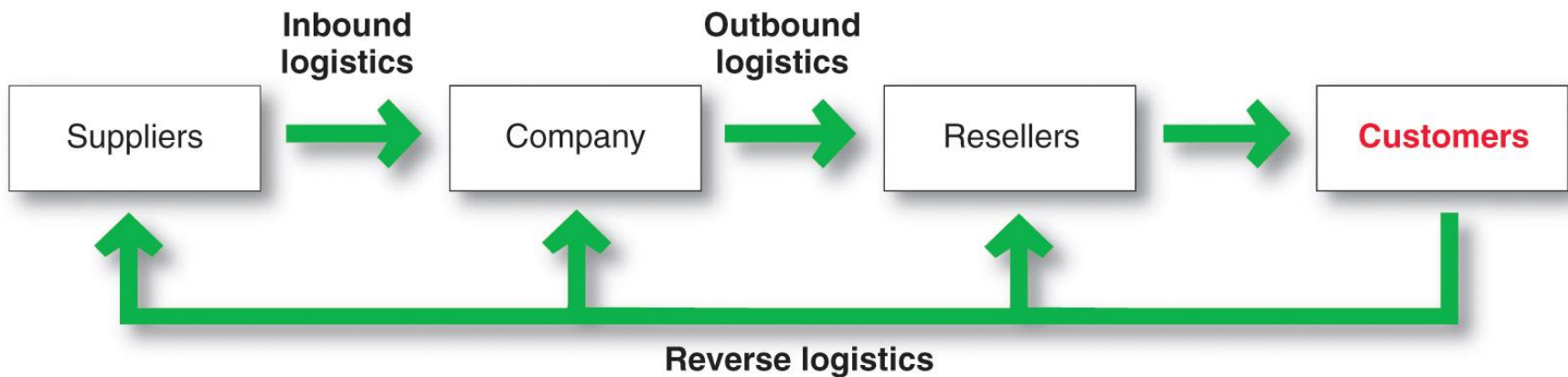
Nature and Importance of Marketing Logistics

Marketing logistics (physical distribution) involves planning, implementing, and controlling the physical flow of goods, services, and related information from points of origin to points of consumption to meet consumer requirements at a profit



Marketing Logistics and Supply Chain Management

Nature and Importance of Marketing Logistics



Marketing Logistics and Supply Chain Management

Nature and Importance of Marketing Logistics

Supply chain management is the process of managing upstream and downstream value-added flows of materials, final goods, and related information among suppliers, the company, resellers, and final consumers



Marketing Logistics and Supply Chain Management

Major Logistics Functions

Warehousing

Inventory
management

Transportation

Logistics
information
management



Marketing Logistics and Supply Chain Management

Warehousing Decisions

- How many
- What types
- Location
- Distribution centers



Marketing Logistics and Supply Chain Management

Inventory Management

- Just-in-time systems
- RFID
 - Knowing exact product location
- Smart shelves
 - Placing orders automatically



Marketing Logistics and Supply Chain Management

Major Logistics Functions

Transportation affects the pricing of products, delivery performance, and condition of the goods when they arrive

Truck

Rail

Water

Pipeline

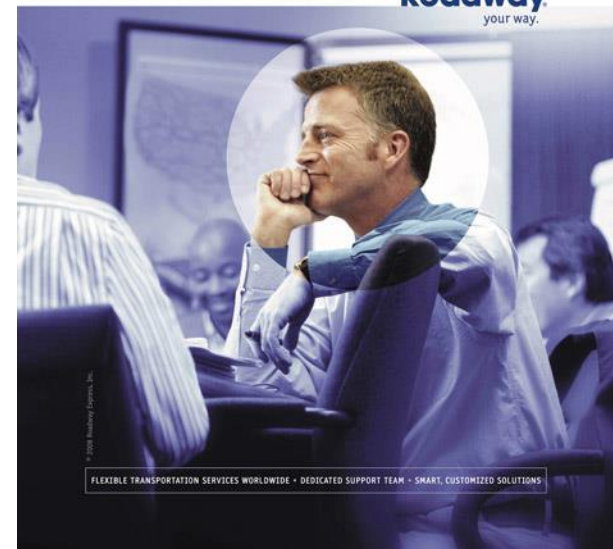
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Marketing Logistics and Supply Chain Management

Logistics Information Management

Logistics information management is the management of the flow of information, including customer orders, billing, inventory levels, and customer data

- EDI (electronic data interchange)
- VMI (vendor-managed inventory)



Marketing Logistics and Supply Chain Management

Integrated Logistics Management

Integrated logistics management is the recognition that providing customer service and trimming distribution costs requires teamwork internally and externally

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Marketing Logistics and Supply Chain Management

Integrated Logistics Management

Third-party logistics is the outsourcing of logistics functions to third-party logistics providers (3PLs)



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