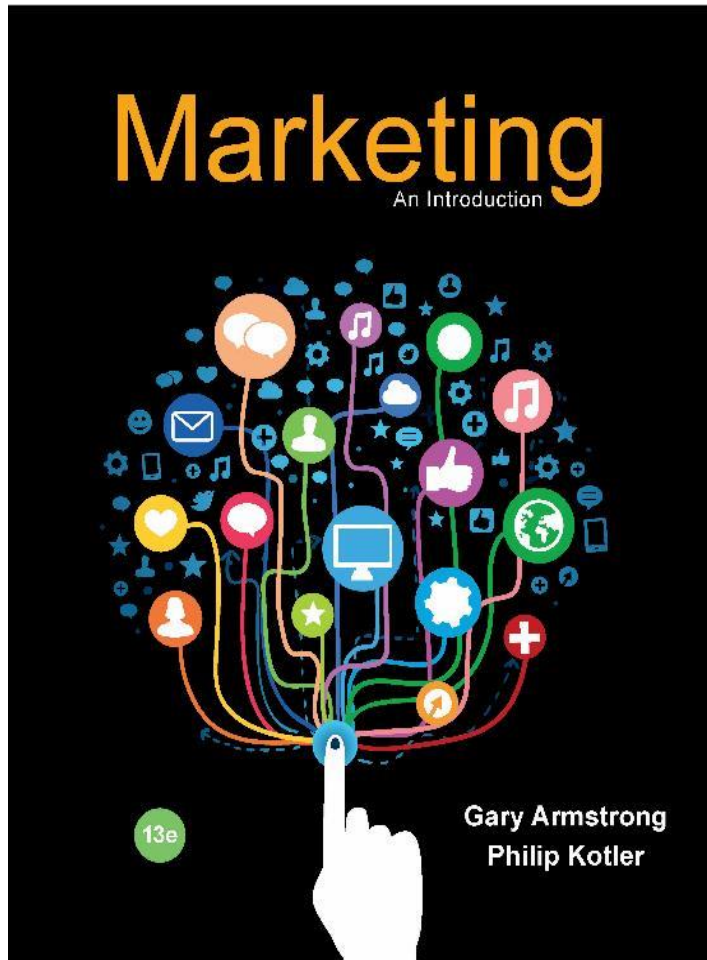


Marketing: An Introduction

Thirteenth Edition



Chapter 10

Marketing Channels: Delivering Customer Value

First Stop: Uber Radically Reshaping Urban Transportation

Uber lets passengers hail the nearest cab from any location using its smartphone app.



Supply Chains

- Upstream partners supply the raw materials, components, parts, information, finances, and expertise needed to create a product or service.
- Downstream partners serve as distribution channels that link the firm and its customers.

Value Delivery Network (1 of 2)

A network composed of the company, suppliers, distributors, and, ultimately, customers who partner with each other to improve the performance of the entire system in delivering customer value

Value Delivery Network (2 of 2)

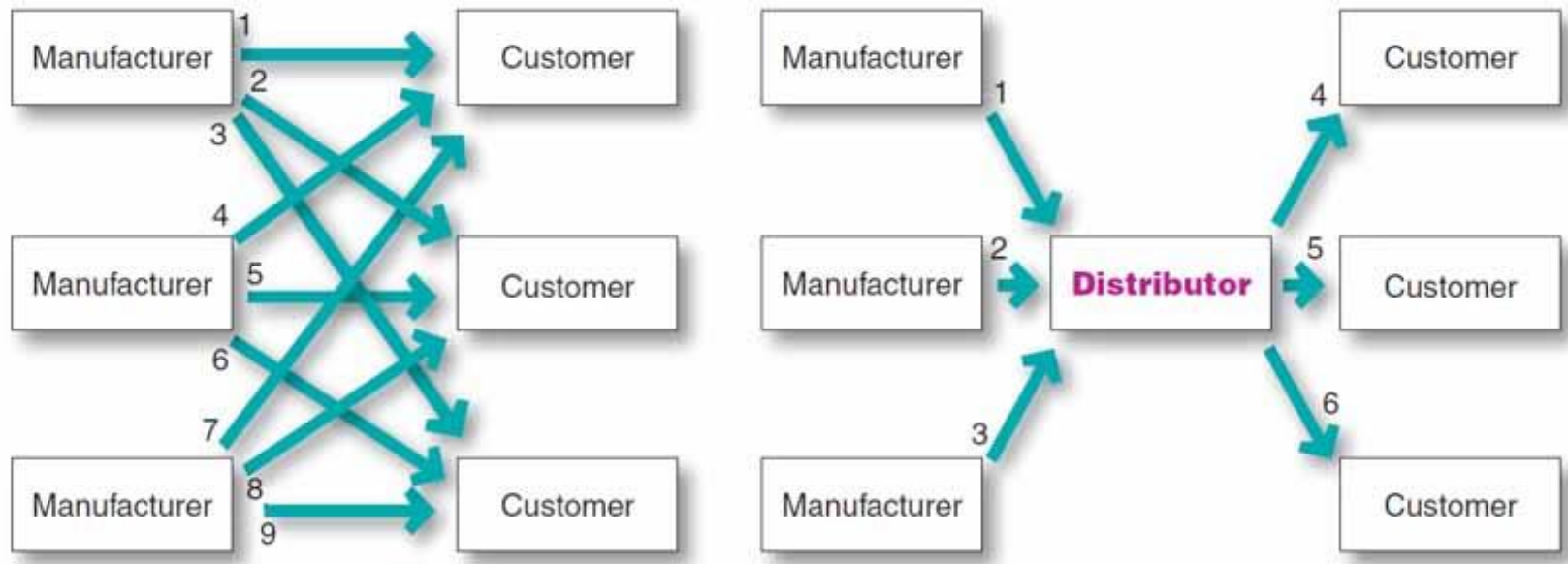
Pepsi manages a huge network to create customer value and establish the brand's positioning.



Marketing Channels (Distribution Channels)

- Interdependent organizations that help make a product or service available for use or consumption
- Channel decisions
 - Affect every other marketing decision
 - Can lead to competitive advantage
 - May involve long-term commitments to other firms

Figure 10.1 - How a Distributor Reduces the Number of Channel Transactions



A. Number of contacts without a distributor B. Number of contacts with a distributor

How Channel Members Add Value

- Intermediaries create greater efficiency in making goods available to target markets.
- Marketing intermediaries transform the assortments of products made by producers into the assortments wanted by consumers.
- Intermediaries bridge the major time, place, and possession gaps that separate goods and services from users.

Key Functions Performed by Channel Members

Help to complete transactions

- Information
- Promotion
- Contact
- Matching
- Negotiation

Help to fulfill the completed transactions

- Physical distribution
- Financing
- Risk taking

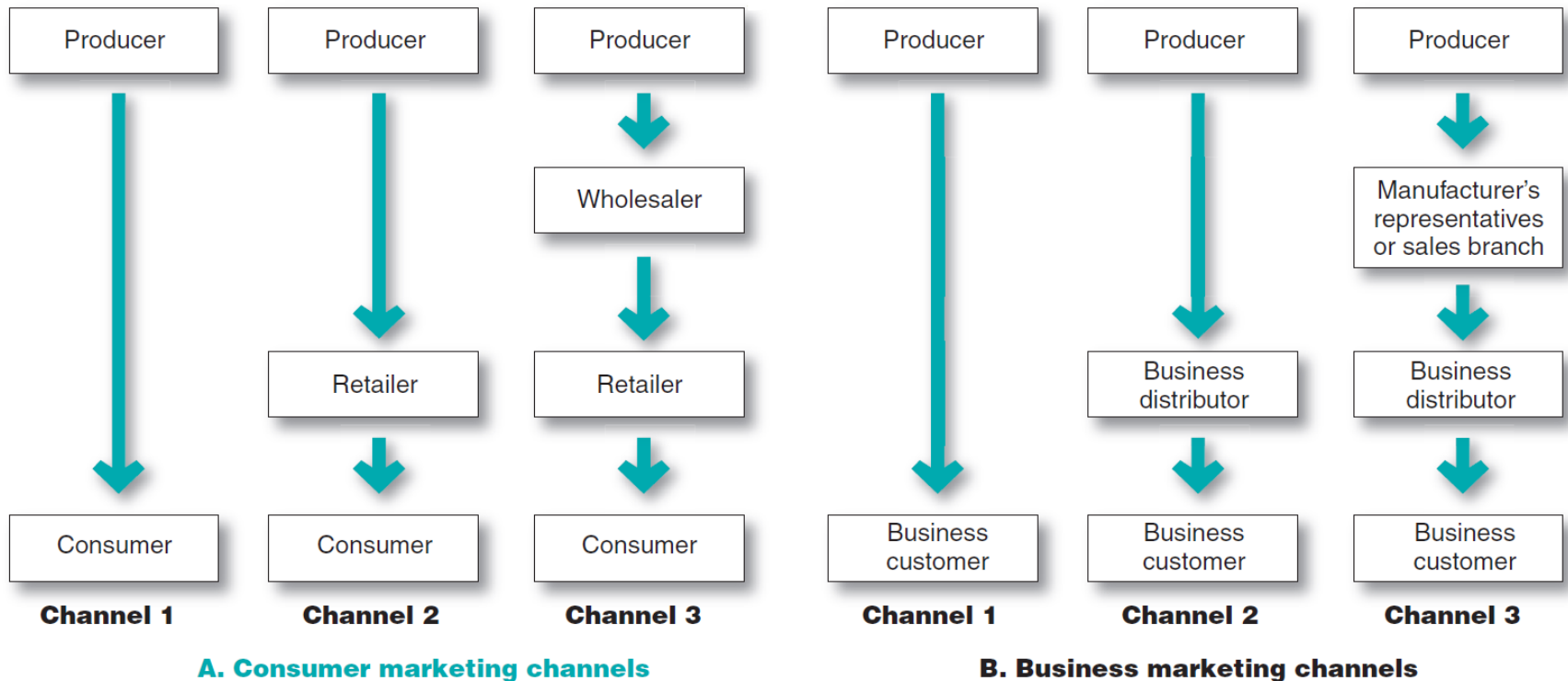
Number of Channel Levels (1 of 2)

- **Channel level:** A layer of intermediaries that performs work in bringing the product and its ownership closer to the final buyer
 - **Direct marketing channel:** No intermediary levels
 - **Indirect marketing channels:** One or more intermediary levels

Number of Channel Levels (2 of 2)

- Types of flows that connect the institutions in the channel:
 - Physical flow of products
 - Flow of ownership
 - Payment flow
 - Information flow
 - Promotion flow

Figure 10.2 - Consumer and Business Marketing Channels



Learning Objective 10-1 Summary

- Value delivery network
- Intermediaries form the marketing channel (or distribution channel)
- Marketing channel functions:
 - Transaction, information, communication, matching, negotiation, physical distribution, financing, and risk taking

Channel Behavior (1 of 2)

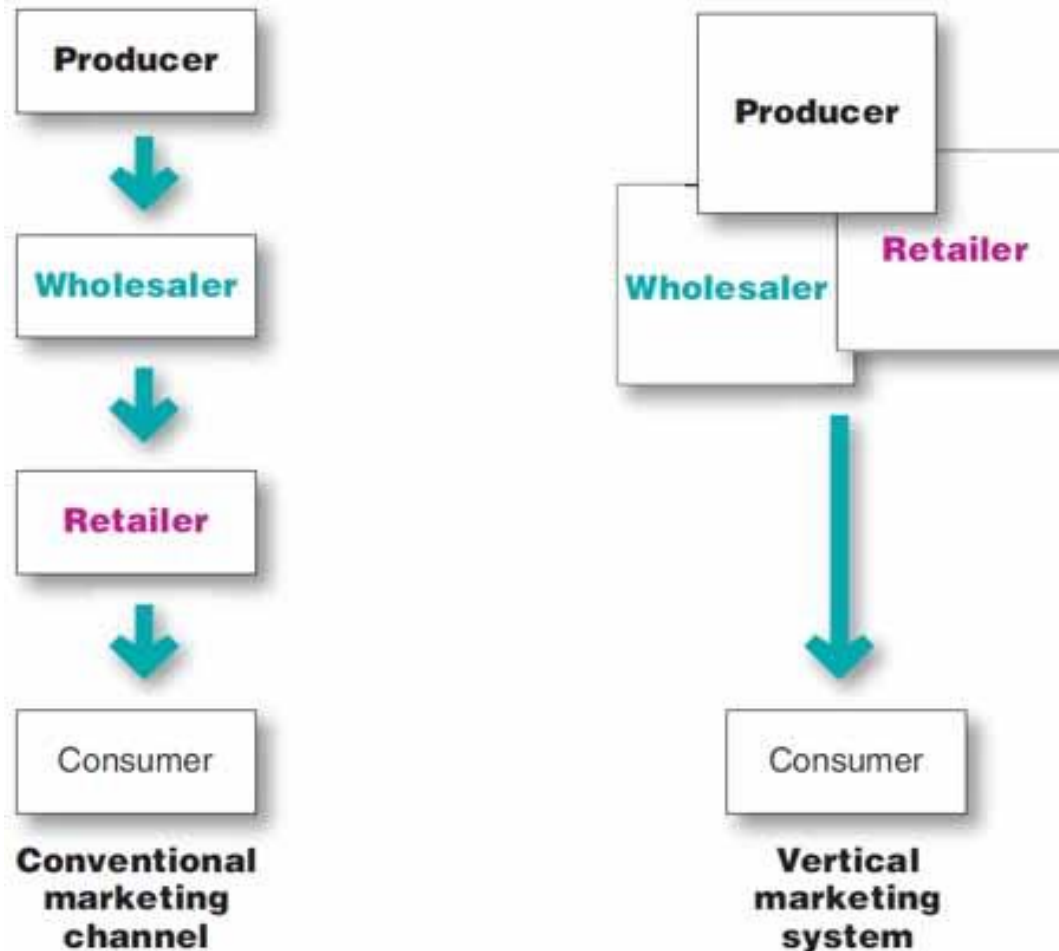
- **Channel conflict:** Disagreements among marketing channel members on goals, roles, and rewards
 - Horizontal conflict occurs among firms at the same level of the channel.
 - Vertical conflict occurs between different levels of the same channel.

Channel Behavior (2 of 2)

“There’s a huge connection” between franchisee satisfaction and customer service.



Figure 10.3 Comparison of Conventional Distribution Channel with Vertical Marketing System



Vertical Marketing Systems

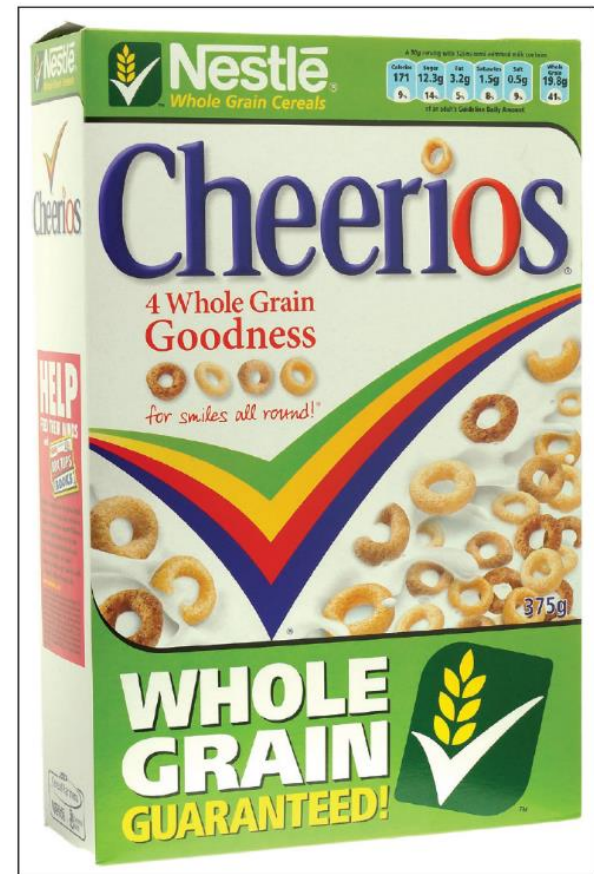
- A **vertical marketing system (VMS)** consists of producers, wholesalers, and retailers acting as a unified system.
- There are three types of VMSs:
 - Corporate
 - Contractual
 - Administered

Horizontal Marketing System (1 of 2)

Two or more companies at one level join together to follow a new marketing opportunity.

Horizontal Marketing System (2 of 2)

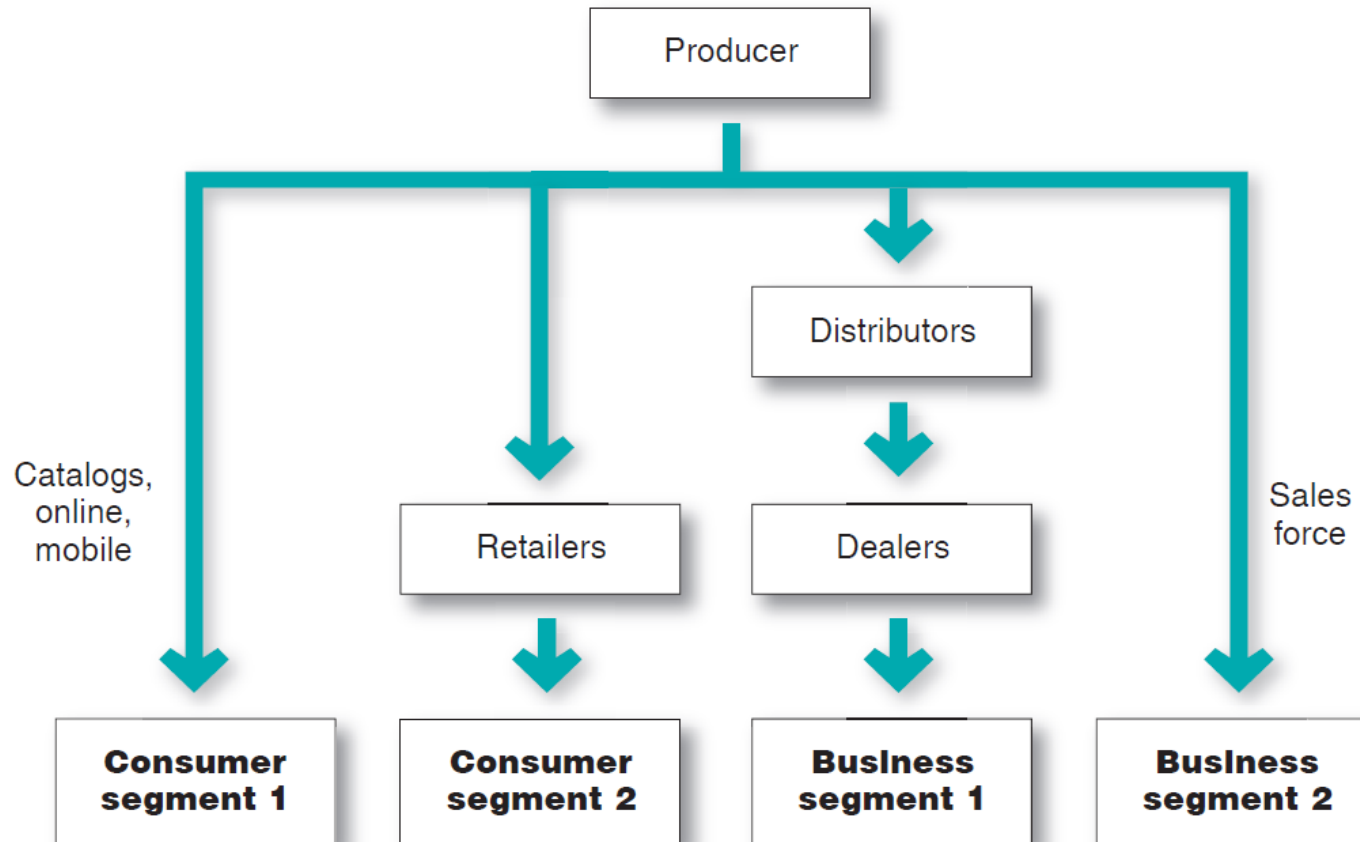
General Mills and Nestlé operate a joint venture—Cereal Partners Worldwide.



Multichannel Distribution Systems

- A single firm sets up two or more marketing channels to reach customer segments.
- Advantages:
 - Expansion of sales and marketing coverage
 - Tailor-made products and services for the specific needs of customer segments
- Disadvantages:
 - Harder to control
 - Generates conflict

Figure 10.4 – Multichannel Distribution System



Disintermediation (1 of 2)

- Occurs when product or service producers cut out marketing channel intermediaries or when radically new types of channel intermediaries displace traditional ones

Disintermediation (2 of 2)

Spotify is rapidly disintermediating both traditional music stores and music download services.



Learning Objective 10-2 Summary

- Horizontal and vertical channel conflict
- Conventional distribution system, vertical management system (VMS) and horizontal marketing system
- Multichannel distribution system
- Disintermediation

Channel Design Decisions

- **Marketing channel design** involves designing effective marketing channels by:
 - Analyzing customer needs
 - Setting channel objectives
 - Identifying major channel alternatives
 - Evaluating the alternatives

Major Channel Alternatives

- Types of intermediaries refers to channel members available to carry out channel work.
- Number of intermediaries to use
 - Intensive distribution
 - Exclusive distribution
 - Selective distribution
- Responsibilities of each channel member

Designing International Channels

- Channel strategies should be adapted to the existing structures within each country.
- Distribution systems can have many layers and a large number of intermediaries.
- Customs and government regulations can restrict distribution in global markets.

Learning Objective 10-3 Summary

- Channel design begins with assessing needs, objectives and constraints
- Company determines major channel alternatives
 - Types, number of intermediaries and channel responsibilities
- Channel alternatives evaluated according to economic, control and adaptive criteria
- Channel management - selecting qualified intermediaries, motivating them and evaluating regularly

Marketing Channel Management (1 of 2)

- Selecting channel members
- Managing and motivating channel members
- Evaluating channel members

Marketing Channel Management (2 of 2)

CVS Caremark's decision leaves tobacco companies seeking new sales channels.



Public Policy and Distribution Decisions

- Exclusive distribution
- Exclusive dealing
- Exclusive arrangements (Clayton Act) are legal as long as the parties
 - Do not substantially lessen competition or tend to create a monopoly
 - Enter into the agreement voluntarily

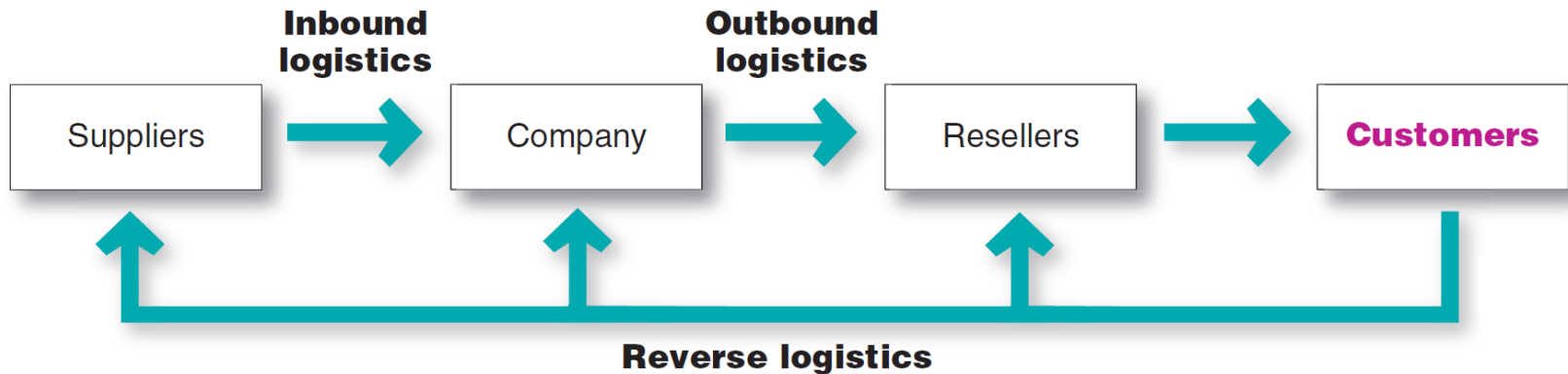
Learning Objective 10-4 Summary

- Marketing channel management calls for **selecting**, **managing**, and **motivating** individual channel members and **evaluating** their performance over time.
- Company must sell not only **through** the intermediaries but also **with** them.

Marketing Logistics (Physical Distribution)

- Planning, implementing, and controlling the physical flow of materials, final goods, and related information from points of origin to consumption
- Customer-centered logistics: Marketplace backwards to the factory or sources of supply
 - Outbound logistics
 - Inbound logistics
 - Reverse logistics

Figure 10.5 – Supply Chain Management



Marketing Logistics and Supply Chain Management

- The goal of marketing logistics is to deliver a targeted level of customer service at the least cost.
- Logistics functions include
 - Warehousing
 - Inventory management
 - Transportation
 - Logistics information management

Warehousing (1 of 2)

- Storage warehouses store goods for moderate to long periods.
- **Distribution centers** are large, highly automated warehouses that receive goods, take orders, fill them, and deliver goods to customers.

Warehousing (2 of 2)

Amazon employs teams of super-retrievers — day-glo orange Kiva robots.



Inventory Management

- Should be done in a cost effective and profitable manner
 - Just-in-time logistics systems
 - Radio frequency identification (RFID), smart tag technology, gives the physical location of a product.

Transportation (1 of 2)

Companies can choose among many transportation modes, including truck, rail, water, pipeline, and air.



Transportation (2 of 2)

Factors affected by choice of transportation

- Pricing of products
- Delivery performance
- Condition of goods
- Customer satisfaction

Modes

- Trucks, railroads, water carriers, pipelines, air carriers, and the Internet

Multimodal transportation

- Combining two or more modes of transportation
- Piggyback, fishyback, trainship, and airtruck

Logistics Information Management

- Flows of information closely linked to channel performance
- Information can be shared and managed through
 - Electronic data interchange (EDI)
 - Vendor-managed inventory (VMI)

Integrated Logistics Management

- Emphasizes teamwork both inside the company and among all the marketing channel organizations
 - Forming cross-functional teams inside the firm
 - Building logistics partnerships
 - Outsourcing to third-party logistics providers for functions required to get a client's product to market

Learning Objective 10-5 Summary

- **Marketing logistics** - outbound logistics, inbound logistics, and reverse logistics
- **Major logistics functions** - warehousing, inventory management, transportation, and logistics information management
- Integrated supply chain management
- Third-party logistics (3PL) providers

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