

# MARKETING-CHANNEL & PHYSICAL-DISTRIBUTION STRATEGY

## 1. Nature of Marketing Channels

- A distribution channel is the set of all firms and individuals that take title, or assist in transferring title, to the particular good or service as it moves from the producer to the consumer, e.g. merchants, agents, facilitators, and marketing firms).
- Intermediaries provide superior efficiency in making goods widely available and accessible to target markets.
- Work of intermediaries is designed to create form, time, place, and possession utilities.
- Major marketing channel functions are:
  - Research - Gathering information necessary for planning & facilitating exchange.
  - Promotion - development and dissemination of persuasive communications about the offer.
  - Contact - Searching out and communicating with prospective buyers.
  - Matching - Shaping and fitting the offer to the buyer's requirements (e.g. manufacturing, grading, assembling and packaging).
  - Negotiation - Attempt to reach final agreement on price and other terms of the offer so that transfer of ownership or possession could be effected.
  - Physical distribution - Transporting & storing of the goods
  - Financing - Acquisition & dispersal of funds to cover the costs of the channel work.
  - Risk taking - Assumption of risks in connection with carrying out the channel work.
- The first five functions deal primarily with consummating transactions, while the last three are facilitating functions.
- Number of Channel Levels
  - A zero-level channel (direct marketing channel) consists of a manufacturer (M) selling directly to a consumer (C): M-C.
  - A one-level channel contains one selling intermediary, usually a retailer (R): M-R-C.
  - A two-level channel contains two intermediaries, usually a retailer & a wholesaler (W): M- W-R-C.
  - A three-level channel contains three intermediaries, sometimes an agent (A): M-W-A-R-C.

- Higher-level channels exist, but with less frequency.
- **Types of Channel Flows**  
Physical flow, title flow, payment flow, information flow, promotion flow.
- **Channels in the Service Sector**  
Problem is one of developing & locating a set of agencies & facilities to provide services to a spatially distributed population.
- **Growth of Vertical Marketing Systems**
  - A corporate vertical marketing system has as its distinguishing characteristics the combining of successive stages of production & distribution under a single ownership (company-owned stores).
    - A contractual vertical marketing system consists of independent firms at different levels of production & distribution integrating their programs on a contractual basis to obtain more economies and/or sales impact than they could achieve alone including wholesaler-sponsored voluntary chains (where wholesalers save the independent retailers they served against the competition of large chain organisations), retailer co-operatives (to defend themselves against the corporate chains), franchise organisations (e.g. manufacturer-sponsored retailer franchise system as in the auto industry, manufacturer-sponsored wholesaler franchise system as in the soft-drink industry, service-firm sponsored retailer franchise system as in the auto-rental industry.
    - An administered vertical marketing system achieves co-ordination of successive stages of production & distribution not through common ownership but through the size & power of one of the parties within the system.
    - The new competition in retailing is no longer between independent business units but rather between whole systems of centrally programmed networks (corporate, administered, and contractual) competing against each other to achieve the best economies and customer response.
  - **Growth of Horizontal Marketing Systems**  
Another development is the readiness of two or more companies to form alliances to jointly exploit an emerging marketing opportunity (e.g. symbiotic marketing).
- **Growth of Multichannel marketing Systems**
  - Companies are increasingly adopting multichannel systems to reach the same or different markets.
  - If the multiple channels serve two different customers levels, it is called dual distribution.
- **Roles of Individual Firms in a Channel**
  - Five types of role relationships of an individual firm to the dominant channel are insiders, strivers, complementors, transients and outsider innovators.

- Another role is that of channel captain - the dominant member in the channel, the one who organized it and leads it.
- Channel Co-operation, Conflict & Competition
  - Channel co-operation is usually the dominant theme among members of the same channel. They are striving for a common goal - satisfaction of consumers.
  - Channel conflict tends to occur within each channel system. Horizontal channel conflict refers to the conflict between firms at the same level in the channel. Vertical channel conflict refers to conflicts of interest between different levels of the same channel.
  - Channel competition describes the normal competition between firms & systems trying to serve the same target markets. It may be horizontal channel competition or channel system competition.

## 2. Channel-Design Decisions

- Types of intermediaries should be identified first, such as manufacturers' agents, company sales force, mail order, distributors, and so on.
- Number of intermediaries to use at each stage is influenced by the degree of market exposure sought by the company.
  - Intensive distribution refers to the stocking of the product in as many outlets as possible and is used by producers of convenience goods and raw materials.
  - Exclusive distribution is a policy of granting a limited number of dealers the exclusive rights to distribute the company's products in their respective territories.
  - Selective distribution involves the use of more than one but less than all of the intermediaries who are willing to carry a particular product.
- Firms & responsibilities of channel members must be determined by the producer.
  - Price policy is one of the major elements in the trade-relations mix
  - Conditions of sale refer to the payment terms & to producer guarantees
  - Distributors' territorial rights are another element in the trade relations mix.
  - Mutual services & responsibilities must be carefully spelled out especially in franchised & exclusive-agency channels.
- Evaluating the Major Channel Alternatives
  - Economic criteria refer to evaluating each channel alternative with respect to sales and costs.
  - Control criteria mean that the evaluation must be broadened by consideration of the control aspects of the channel alternatives.
  - Adaptive criteria involve evaluating each channel alternative on the duration of commitment & loss of flexibility.

### **3. Channel-Management Decisions.**

- **Selecting Channel Members**

Producers should determine what characteristics distinguish the better middlemen from the poorer ones.

- **Motivating Channel Members**

- The job of stimulating channel members to top performance must start with the manufacturer attempting to understand the needs & wants of the particular middleman.

- Producer can use several approaches to handling a distributor relations. Most producers see the problem of motivation as one of the figuring out ways to gain co-operation from independent & sometimes difficult middlemen. More sophisticated companies try to forge a long-term partnership with their distributors. Distribution programming is building a planned, professionally managed, vertical marketing system that incorporates the needs of both the manufacturer & their distributors.

- **Evaluating Channel Members**

- Must evaluate middlemen performance against standards

- Producer often issues sales quotas to define current performance expectations.

### **4. Channel-Modification Decisions**

- Adding or Dropping Individual Channel Members (use straightforward economic analysis).

- Adding or Dropping Particular Marketing Channels

- Modifying the Whole Channel

### **5. Physical Distribution Decisions**

- **Nature of Physical Distribution**

- comprises the tasks involved in planning & implementing the physical flows of materials & final goods from points of origin to points of use or consumption to meet the needs of consumers at a profit.

- Marketers have argued for market logistics thinking that starts with market considerations & works backward to the plant.

- **The Physical-Distribution Objective**

- Refers to getting the right goods to the right places at the right time for the least cost (Note these objectives can be conflicting.).

- The company has to research the relative importance of the various services to target consumers.

- Also look at competitors' service standards.

- Need to establish physical distribution objectives to guide physical distribution system planning.
- Order Processing
  - Physical distribution starts with the receipt of a customer order.
- Warehousing
  - Stocking goods at various locations while they wait to be sold.
  - A storage warehouse is designed to store goods for moderate to long periods of time.
  - Distribution warehouses (distribution centres) receive goods from company plants on a daily basis, assemble them, & move them out to customers as fast as possible.
  - There is a move to single-storey automated warehouses with advanced materials handling systems under the control of a central computer.
- Inventory
  - Another major type of physical distribution decision.
  - Inventory cost increases at an increasing rate as the customer service level approaches 100%.
  - Inventory decision making is a two-step decision process calling for knowing when to order & how much to order.
  - Must determine reorder point, safety stock level & inventory carrying costs.
  - The optimal order quantity can be determined by observing how order-processing costs & inventory costs run up at a different possible order levels.
- Transportation
  - Railways are one of the most cost-effective forms when shipping carload quantities of bulk products long distances.
  - Water (for shipping bulky, low-value, nonperishable products).
  - Trucks are highly flexible in their route opportunities & time schedule & are very efficient for short hauls of high-value merchandise.
  - Air is expensive. Used to ship high-cost perishables (fresh flowers) & high-value, low-bulk items (jewellery).
  - Several criteria should be used to select transportation mode
  - Can use combinations of modes because of increasing containerization
  - Choice between private (own own fleet), contract (independent organization that sells transportation on contract basis), or common (transportation services at standard rates).
- Organizational Responsibility
  - Takes high degree of co-ordination

- Some companies have a committee & others a key executive to oversee physical distribution activities.

