Distibution channels

Session 7 DISTIBUTION CHANNELS By the end of this unit, you should be able to: • Explain why companies use distribution channels and discuss the functions these channels perform. • Discuss how channel members interact and how they organize to perform the work of the channel. • Identify the major channel alternatives open to a company. • Discuss the nature and importance of marketing logistics and supply chain management. • Describe the major types of retailers and give examples of each. • Identify the major types of wholesalers and give examples of each. . WHAT ARE THE DISTRIBUTION (PLACE) DECISIONS FOR EFFECTIVE MARKETING MANAGEMENT? 2. The Nature of Distribution Channels br /> a. A distribution channel is a set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user. Why Are Marketing Intermediaries Used? b. The use of intermediaries results from their greater efficiency in making goods available to target markets.

Through their contacts, experience, specialization, and scale of operation, intermediaries usually offer the firm more than it can achieve on its own. Distribution Channel Functions c. Members of the marketing channel perform many key functions. They are: 1). Information gathering and distribution. 2). Promotion. 3). Contact with prospective buyers. 4). Matching—buyers with sellers. 5). Negotiation so ownership can take place. 6). Others include: a). Physical distribution (such as transportation and torage). b). Financing. c). Risk taking. Number of Channel Levels d. Distribution channels can be described by the number of channel levels involved. A channel level is a layer of middlemen that perform some work in bringing the product and its ownership closer to the final buyer. 1). The number of intermediary levels indicates the length of the channel. 2). These levels can be described as being: a). A direct marketing channel—there are no intermediary levels between manufacturer and consumer. b).

An indirect marketing channel—there can be numerous and a variety of intermediaries involved in bringing the good or service from the manu-facturer to the consumer or business customer. 3. Channel Behavior and Organization a. Distribution channels are more than simple collections of firms tied together by various flows. Channel Behavior b. Disagreements over goals and roles generate conflict. c. Channel conflict occurs as disagreements among marketing channel members on goals and roles—who should do what and for what rewards.). Horizontal conflict is conflict between firms at the same level of the channel (retailer to retailer, for example). 2). Vertical conflict is conflict between different levels of the same channel (wholesaler to retailer, for example). Vertical Marketing Systems d. The conventional distribution channel is a channel consisting of one or more independent producers, wholesalers, and retailers, each a separate business seeking to maximize its own profits even at the expense of profits for the system as a whole.

These channels have lacked strong leadership and have been troubled by damaging conflict and poor performance. l. In contrast is the emergence of vertical marketing systems. A vertical marketing system (VMS) is a distribution channel structure in which producers, wholesalers, and retailers act as a unified system—one channel member owns the others, has contracts with them, or has so much power that they all cooperate. The major types include: 1). corporate VMS 2). contractual VMS 3). administered VMS

Horizontal Marketing Systems e. Horizontal marketing systems are where two or more companies at one level join together to follow a new marketing opportunity. By working together, they can combine their capital, production capabilities, or marketing resources to accomplish more than if they were working alone. Hybrid Marketing Systems f. Hybrid marketing systems are multi-channel distribution systems in which a single firm sets up two or more marketing channels to reach one or more customer segments.

More and more firms are adopting this concept. 4. Channel Design Decisions Identifying Major Alternatives a. The next step is to identify the major alternatives available. 1). The number of middlemen. Alternative strategies are: a). Intensive distribution—the product is stocked in as many outlets as possible (candy, gum, etc.). b). Exclusive distribution—giving a limited number of dealers the ex- clusive right to distribute the company’s products in their territories (prestige automobiles).). Selective distribution—the use of more than one, but fewer than all of the intermediaries who are willing to carry the company’s products (television, furniture, etc.). 5. Channel Management Decisions a. Once the company has decided on the best channel design, it must make some channel management decisions. 1. Selecting Channel Members 2. Motivating Channel Members 3. Evaluating Channel Members 6. Marketing Logistics and Supply Chain Management a.

In today’s global marketplace, selling a product is sometimes easier than getting it to the customers. b. Physical distribution and logistics effectiveness will have a major impact on both the consumer’s satisfaction and company costs. Nature and Importance of Marketing Logistics c. Marketing logistics (physical distribution) involves the tasks of planning, implementing, and controlling the physical flow of materials and final goods from points of origin to points of use to meet the needs of customers at a profit. . RETAILING & WHOLESALING 1. Retailing a. Retailing includes all the activities involved in selling goods or services directly to final consumers for their personal, nonbusiness use. Types of Retailers b. Retailers can offer three levels of service: 1). Self-service retailers are retailers that provide few or no services to shoppers. Shoppers perform their own locate-compare-select processes. 2). Limited-service retailers are retailers that provide only a limited number of services to shoppers.). Full-service retailers are retailers that provide a full range of services to shoppers. c. Specialty stores carry narrow product lines with a deep assortment within that line. These stores seem to be flourishing because of the increasing use of market seg- mentation, market targeting, and product specialization. d. Department stores are retail organizations that carry a wide variety of product lines such as clothing, home furnishings, and household goods.

Each line is operated as a separate department managed by specialist buyers or merchandisers. e. Supermarkets are large, low-cost, low-margin, high-volume, self-service stores that carry a wide variety of food, laundry, and household products. f. A convenience store is a retail store located near a residential area, open long hours, seven days a week, and carrying a limited line of high-turnover convenience goods. g. Superstores are stores almost twice the size of regular supermarkets.

They carry a large assortment of routinely-purchased food and nonfood items and offer such services as dry-cleaning, post office, photo finishing, check cashing, bill paying, lunch counters, car care, and pet care. 2. Wholesaling a. Wholesaling includes all activities involved in selling goods and services to those buying for resale or business use. Wholesalers are those engaged primarily in wholesaling activity. b. Wholesalers are used because they are often better at performing the following channel functions than others in the channel:). Selling and promoting 2). Buying and assortment building 3). Bulk-breaking 4). Warehousing 5). Transportation 6). Financing 7). Risk-bearing 8). Market information 9). Management services and advice Types of Wholesalers a. Wholesalers fall into three major groups. b. Merchant wholesalers are independently owned businesses that take title to the merchandise they handle. Two broad types include: 1). Full-service wholesalers. 2). Limited-service wholesalers. c. Brokers and agents form the next set of wholesale groups. 1). A broker 2). An agent