

# Distribution: marketing and channel assignment

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facilitates customer ownership of the product. FORM... Sometimes, if changes have been made to the product in the distribution channel, I. E. Pepsi/Coke, concentrate to bottlers. Each channel member has different responsibilities within the overall structure of the distribution of the system; mutual profit/success is obtained through cooperation. The distribution system: determines a product's marketing presence and the buyers' celestially to the product entails a long-term commitment, easier to change other aspects of the marketing mix.

Justification for Intermediaries we've eliminated the middle man and we're passing on the savings toy"-a typical broadcast from Supermarket EX. Why do we use intermediaries? Without Intermediaries: May be able to reduce distribution costs, If the supermarket can perform those functions more efficiently than a wholesaler, but the supermarket inventory costs may increase as a consequence, therefore no savings and less efficient. Number 1 Reason Improve exchange efficiency.

There are certain costs associated with an exchange, therefore need to try to reduce the number of transactions (exchanges): \*Chicken Intermediary— 10 transactions Customers With 1 \*Potatoes \*Carrots \*plates \*Silverware \*Customers With no intermediaries—25 transactions \*Customers \*Customers \*Customers Without an intermediary, each buyer has to negotiate and exchange with each seller. With one intermediary, each buyer negotiates with one intermediary (as opposed to 5 sellers), and each seller negotiates with one intermediary (as opposed to 5 buyers).

Number 2 Reason Intermediaries are specialists In the exchange process, provide access to and control Division of labor. Still need services that intermediaries (wholesalers, retailers etc. ) revived; if they were eliminated then someone else would have to assume the tasks (either producer or customer). Functions can be shifted and shared among channel members, but cannot be eliminated, unless the buyer assumes them. “ you can eliminate the middle man, but you can’t eliminate their functions”-a well accepted maxim in marketing.

Functions of Intermediaries Primary role of middlemen is to transform the assortment of products made by producers in the assortments desired by consumers. Producers make narrow assortments in large quantities, consumers want broad assortments in small quantities, discrepancy in quantity and assortment. Match Supply and Demand: \*Chicken \* Potatoes \*Plates \*Customer 1 \*Customers PRODUCER Specialization in production, economies of scale etc. , therefore wants to produce large quantities but narrow product mixes. Efficiently CUSTOMER Wants a broad assortment (products produced by many manufacturers) of products made available conveniently (within easy reach). Other functions of intermediaries include: assuming risk-Provide working capital by paying for goods before they are sold. Information Flow financing payment and title flow. Negotiation intact promotion A producer will use an intermediary when it believes that the intermediary can perform the function(s) more economically and efficiently than it can. Types of Channels of Distribution Consumer Channels Channels for Consumer Products.

Vertical dimensions, determined by the # in the channel. Channel A: Producer Consumer IEE door to door purchases, Unsought products IEE Encyclopedias. Fruit picking orchards. Services often use direct channels since the service provider, in most cases, must be there to provide the service. Simplest method, not necessarily the most effective. Technological developments are making the direct channel more common: TV Homeomorphism CDC Catalogs, AL Bean etc. Internet, WWW When you can use the media of communication to effect exchange... 1-800#s, Credit Cards etc.

Channel B: Retailer Large retailers, J Penny, Smart, no discrepancy in quantity supplied and demanded. Popular for shopping products, clothing. Automobiles... Cost of transportation and inventory is high. Channel C: Wholesaler Smaller retailers, widely distributed products, convenience products. Channel D: Agent Mass distribution, IEE processed food; also when there are a number of small reducers etc. May be the most efficient distribution channel for consumer products. Convenience products. Horizontal dimensions, the # of channel members at the same level.

IEE Chevrolet much wider distribution than Rolls Royce. Business to Business Channels Channel E: Buyer Very popular, especially for high cost items that need after sale support. Fewer customers clustered geographically. This is a more common structure than the direct channel in consumer markets. Channel F: B distributor Distributor takes title. Used when there are many customers. IEE consumable supplies etc. Channel G: When a company does not have a marketing department or sales force, the

agent performs those tasks. Channel H: Distributor Used as above, with many customers, IEEE exporting.

Multiple Marketing Channels Dual Distribution Use several types of channels simultaneously, IEEE when you have consumer and business to business markets. Set up 2 or more Marketing channels to attract the same target market or different target markets. Using two or more channels to attract Wholesale transactions are all transactions except the transaction with the ultimate consumer. Classification of a wholesaler or retailer is determined by the purchaser, to by the price. If over 50% of sales is with other intermediaries then the intermediary is a wholesaler.

If over 50% of sales is with the consumer, then the intermediary is a retailer. Firms can engage in wholesaling activities without being wholesalers. Nature and Importance of Wholesaling Approximately a \$1. 94 trillion industry in the US 300, 000 wholesaling establishments in the US Employ 6. 5 million people, down from 6. 57 million in 1989 Very competitive. Wholesalers will be eliminated from a channel if they do not perform valuable functions effectively and efficiently. Return to Contents Types of Wholesale Intermediaries 2 Types of intermediaries: Merchant intermediaries -buy products and resell them.

Functional intermediaries -do not take title, they expedite exchanges among producers and resellers, compensated by fees and/or commission. Merchant Wholesalers Take title. Account for approximately 83% of wholesalers, 50% of wholesale sales. Employ 4. 5 million people. Two types: Full Service Wholesalers-offer widest possible range of functions. Categorized as: General

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Merchandise-wide mix (unrelated), limited depth. Limited Line-only few products but an extensive assortment. Specialty Line-narrowest range of products. Rack Jobbers-are specialty line that own and maintain display racks, take back unsold products.

Limited Service Merchant Wholesalers-only provide some marketing functions. Cash and Carry wholesaler-customers pay and furnish their own transportation, No credit. Truck Wholesalers-operate rolling warehouses and sell a limited line of products directly from their trucks to their customers. Follow regular routes, primarily perishable products. Drop Shippers (desk Jobbers)-take title, negotiate sales but do not take possession. Mail Order Wholesalers-use catalogues instead of sales force to sell. Agents and Brokers Negotiate purchases, expedite sales but do not take title.

Functional middlemen, that bring buyers and sellers together. Compensated with commission. Agents represent buyers and sellers on a permanent basis. Brokers represent buyers and sellers on a temporary basis. 10. 4% of wholesalers total sales volume. Manufacturers Agent-over half of all agents. Represent two or more sellers and offer customers complete lines. Handle non- competing (complementary) products. Written agreements. Selling Agent-market either all specified line or manufacturers entire output. Perform every wholesaling activity except taking title of the product.

Used in place of a marketing department. Represent non-competing product lines. Commission Merchant-focus primarily on the selling task. Receive goods on Companies-provide storage for inspection. Sales made to the highest bidder. Brokers-negotiate exchanges-perform the fewest

intermediary functions. Assume no risk. Manufacturers Sales branches and offices Resemble merchant wholesalers operations, 9% of wholesale establishments and generate 31% of wholesale sales. Manufacturer owned. Sales Branches-sell product ND provide support services to manufacturers sales forces.

Sales Office-serves normally associated with agents; like sales branches located away from a manufacturing plant-carry no inventory. Vertical Marketing Systems The traditional view of channels focuses on buyers and sellers in direct contact. IEEE don't look beyond the next level. The systems view focuses on a framework for the whole distribution system. A Vertical Marketing System (VIM) is a marketing channel that a single channel member coordinates. The channel member manages channel activities to achieve efficient, low cost distribution aimed at satisfying the target arrest customers.

There are three types of Vertical Marketing Systems, Corporate, Administered and Contractual. Corporate VIM More than one stage of the distribution channel under one ownership, IEEE supermarket chains that own processing plants and large retailers that purchase wholesaling and production facilities. Examples: Sears Sherwin Williams Giant Foods Gallo Banana Republic Hallmark The Gap Oil Companies Administered VIM Channel members are independent with a high level of internationalization management by informal coordination. Agree to adopt uniform accounting policies etc. And promotional activities.

One Channel member dominates, has a channel leader. Examples: Wall Mart TOYS R US Kellogg Pepsi Coke McKesson Corp. J Penny Campbell Channel Leader-Effectiveness of channel hinges on channel leadership. Leader must possess channel power. Power can come in the following forms: Reward-provide Expert-be the expert compared with other members Referent-strongly identify with leader Coercive-punish members Contractual VIM Most popular VIM, internationalization relationships formalized through contracts that spell out each members rights and obligations. IEEE McDonald's and KEF. Franchise organizations 1/3 retail sales and 500, 000 outlets.

Wholesaler sponsored, GIG stores-independent retailers band together under contractual leadership of a wholesaler. Superglue Stores, largest food wholesaler in the US, offers a broad package of services to 2800 independent food retailers that voluntarily enter into a buying contract. Retailer sponsored cooperatives which set up, own and operate their own wholesalers. Channel Conflict Channel members may disagree on the best methods to attain goals. Inevitable when individual short run goals are not compatible. Can occur between firms at the same bevel, or between firms at different levels. Want to maximize profits and autonomy.