MARKETING DISTRIBUTION &
CHANNELS ISSUES

WHY MARKETING CHANNELS?
Bridging the gap between the producers and the
consumers → intermediaries (individuals & firms)

Bring the right products to the right consumers at the
right price to the right place

Key issues: effectiveness & efficiency

Value created by intermediaries: efficiency via
reducing the number of sales contacts necessary to
reach the target market

Functions performed by intermediaries:
* transactional functions
* logistical functions
* facilitating functions
Note: ALL functions need to be performed, does not
matter by who → functional shiftability → esp in
vertical marketing systems
Utilities created by channels:
* time – when consumers want it
* place – where consumers want it
* form – product enhancement → more attractive
* possession – intermediaries help buyers take possession

CHANNEL STRUCTURE

Direct vs indirect channels

Consumer goods channel vs B2B channels

Electronic marketing channels
* HSN
* online retailing → eBay (auction), reservation (Orbitz), etailing (amazon.com), financial services (Schwab.com)

Multi-level marketing → Avon, Mary Kay, Tupperware

Dual distribution → more than one channel
* GE → to consumers via retail stores; to builders

Strategic channel alliances
* Kraft & Starbucks → Kraft sells Starbucks coffee in US supermarkets & internationally
* GM & SAAB: GM sells Saab thru Saturn dealerships in Canada

**VMS -- Vertical Marketing Systems**

* **Corporate VMS:** forward and backward integration
  WHY integration: efficiency & greater control over supply
  Wal-Mart

* **Contractual VMS:** independent production & distribution firms contractually integrate efforts
* Wholesaler sponsored voluntary chain: IGA
* Retailer-sponsored coops: Ace Hardware
* franchising
  - Mfg –sponsored retail: auto dealerships
  - Mfg-sponsored wholesale: bottlers
  - Service-sponsored retail: Holiday Inn, McD
  - Service-sponsored: H&R Block

* **Administered VMS:** large channel member influence & coordinate sales at different levels in channel system
  - Wal-Mart – obtain coop from mfg in terms of price, promo support, product specs
  - P&G – receives coop from supermkts on displays, promo, pricing
CHANNEL MANAGEMENT ISSUES

Factors affecting channel choice & mgmt:

* environmental factors: changing family lifestyles → Tupperware/Avon → retail stores; techno advances → Krogers eliminates flower wholesalers, buys directly from growers

* **consumer factors:** who? Where they buy? How they buy? What they buy? → youth online

* **product factors:** consumer durables vs scientific equipment, etc → affects channels

* **company factors:** firm’s assets & capabilities; distribution goals

Channel design issues:

* **target market coverage:** intensive, exclusive, selective

* **satisfying buyer requirements:**
  - info (customer support key);
  - convenience (proximity, drive time)
  - variety (competing, complementary items)
  - attendant services (delivery, installation, credit)

* **profitability:** margins earned, turn-over rate
Global dimensions of marketing channels:

Japan: half US population; 20% land \( \rightarrow \) same number wholesalers/retailers; WHY?
- Tradition (samurais/history)
- lack of storage space
- longer channels
- culture: collective vs US individualistic: keiretsu: bonds producers & intermediaries \( \rightarrow \) influence over channel members

Behavioral dimensions of channels:

Conflict – cooperation

Vertical conflict: between mfg & wholesalers/retailers
- bypass member: disintermediation
- disagreement over profit margins
- mfg believes ws/retailers not giving attention

Horizontal conflict: occurs at the same level
- expands overage of market \( \rightarrow \) turf battles
- dual distribution \( \rightarrow \) diff types of retailers

Cooperation:
Channel captain \( \rightarrow \) with power to influence behavior of other members \( \rightarrow \) coordinates, directs, supports other channel members: P&G
Legal issues:

**Dual distribution:** not illegal yet anti-competitive

**Vertical integration:** not illegal; under Clayton Act if it lessens competition
- tying arrangements
- exclusive dealings
- refusal to deal
- resale restrictions

**Grey markets**