

## Chapter 11: Marketing Channels

- Why Marketers or companies use channels?
  - Companies make products available through supply chain. Up and down stream.
    - Upstream producers supply raw materials and components necessary to create products
    - Downstream marketing channel partners link producers to the customer
  - Value delivery network: definition in the slides.
- Refer to Figure 4.1
  - At each stage of this network, value is added by the different actors.
  - Interdependent firms make a product available for businesses.
  - Channel decisions affect other marketing decisions and channel decisions can lead to competitive advantage.
    - Channel decisions can really make a big impact for the company. Ex: Apple decided to market music on itunes.
  - The core concept of the channel is to delegate the sale process away to a wholesaler (manufacturer delegates to wholesaler).
    - Why is it interesting to do this?
      - Spreading the risk
      - The wholesaler might be a better salesperson than the manufacturer
      - The wholesaler might have the clients that a manufacturer is seeking.
- How do channel members add value?
  - Info: ex: retailers can pass on the insight gained from customers to the manufacturers. Keyword Information flow. Ex; the franchisor can pass on the info about the customers to the franchisee.
  - Promotion: ex: discounts, pricing policies
  - Financing, support, distribution, matching and arranging are all strengths that are useful along the way.
  - Negotiation
  - Contacts
  - Risk taking

- All the above are ways in which an entity, strong in whichever skill, can add value. Channel members that are more specialized in a given skill are more efficient at delivering that specific value.
- Types of intermediaries/channel members
  - Retailers sell products directly to consumers.
  - Wholesalers sell to merchant wholesalers and distributors. These products are sold for resale.
    - Cisco and Granger are examples.
    - Sometimes manufacturers are also wholesalers.
  - Drop Shippers and Rack Jobbers: do not take possession of the merchandise.
    - Rack jobbers own a small space inside a retail store.
  - Brokers generally specialize by product type.
    - They do not take the title of the goods. À
    - Ex: stockbrokers
  - Agents are similar to brokers
    - Ex: advertizing agents, real estate agents.
- Channel levels
  - Direct: deliver the product directly from producer to consumer
  - Indirect: involve intermediaries.
- Refer to Fig. 11.2 it outlines the consumer marketing channels and the business marketing channels.
  - From the manuf. Point of view: the greater the number of levels, the less control; unless the manuf owns the channel.
- We watch a video.
- Vertical marketing systems
  - A channel structure in which manufacturers, wholesalers and retailels work in a unified system. One channel member has some kind of exclusivity either through contracts or by outright owning the other channel members. Or it could have so much power that it forces them to cooperate.
  - Compared to the conventional distribution system, where every player seeks to max *his own* profit margins, this is more effective.
  - VMS system types: corporate, contractual, administered, franchise. Definitions on the slides.

- Horizontal marketing systems
  - Ex: a gas station that is also a tim hortons and a car wash.
  - Horizontal marketing systems, multichannel marketing systems, disintermediation (1, 2 and 3)
    - 1. Two or more companies join together to follow a new marketing opportunity
    - 2. A single firm sets up multiple channels. Also called *Hybrid marketing*
    - 3. A producer that cuts out traditional intermediaries (spotify)
- Channel conflict. Can be horizontal or vertical.
  - Horizontal
    - Channel conflicts occur when each individual members try to maximize *their own profit* at the expense of other members. Ex: a conflict between two car dealers that sell the same car brand.
    - \_\_\_?\_\_\_ quality level of service.
    - Disagreements about different agents, dealers, prices territories are signs of horizontal conflict.
    - Or for example, in international hotels, a poor service in one location can influence the sales of other hotel chains of the same brand in other locations.
  - Vertical
    - Ex: KFC see blue text in slides.
  - In order to resolve these conflicts, channel members \_\_\_[inaudible]\_\_\_ structures?
- Disintermediation
  - Ex: travelocity, netflix, uber and zipcar.
  - This is cutting out channel intermediaries or displacing resellers via a new and better type of intermediary.
- Distribution Strategy
- Channel design decisions;
  - Three steps: Analyzing customer needs, Setting channel objectives, determining the responsibilities of channel members:
    - Research shows that many customers are more price sensitive.
    - When a product is perishable, it cannot be distributed over a regular supply chain. It requires specialized services.

- Marketing logistics and supply chain management.
  - The task of planning, implementing, and controlling the physical flow of all those supplies and products.
  - Can provide the company savings, making the products less expensive for the customers.
  - Cost savings here and having a competitive advantage is more and more important for companies.
  - Involves:
    - Outbound logistics: products from the factory -> distr.
    - Inbound distr. : Materials from suppliers -> to the factory
    - Just in time: focus on reducing the inventory level as much as possible.
    - Reverse dist.: \_\_\_\_\_ Please see textbook. This is not defined in the slides.
  - The goal of the logistics system is to deliver the targeted level of customer service at the least cost. This can be optimized but it will never be perfect.
  - The major logistics functions are listed in the slides.
  - Third party logistics:
    - Logistics is rarely a business core competency
    - So they can outsource to 3PLs such as UPS.