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Academic Scripts

Introduction

After having understood the other P's of marketing mix, we will now understand the most important and the last P I.e. Place or Physical Distribution. Most of the producers do not sell their goods directly to the final consumers but use a set of intermediaries to perform variety of functions. These intermediaries constitute a marketing channel. Marketing Channels are set of interdependent organizations involved in the process of making the product or service available for use or consumption. They are a set of pathways, followed by a product or service after production resulting in purchase and use by the final end user.

There are broadly three types of intermediaries:

1.Merchants – who buy, take title and resell the merchandise.

For e.g. wholesalers and retailers.

2. Agents – who search for customers, may negotiate on producer's behalf but do not take title to the goods. For e.g. brokers, sales agents, manufacturer's representatives.

3. Facilitators – who assist in the purchase process but neither take title to goods nor negotiate purchase or sales. For e.g. transporters, warehousing firms, banks, advertising and media agencies.

Importance of Marketing Channels

The marketing channel decision is an important one as it affects all other marketing decisions like pricing, sales force advertising and sales promotion. The marketing channel helps convert the potential customers to profitable customers as it creates time utility, place utility, possession utility and form utility. The marketing channels make it easy for customers to purchase a product by providing spatial convenience. Also, marketing channels help provide product variety by increasing the breadth of assortment, Service backup in the form of add on services like credit, delivery, installation and repairs.

Channel functions and flows

A marketing channel performs the work of moving the goods from producers to consumers. The channel manages time, place and possession gaps that separates goods and services from those who want them. Members of the marketing channel perform a number of key functions-

1. Gather information about potential and current customers, competitors and other actors and forces in the marketing environment.
2. Develop and disseminate persuasive communications to stimulate purchase.
3. Reach agreement on price and other terms so that transfer of ownership or possession can be effected.
4. Place orders with manufacturers.
5. Acquire the funds to finance inventories at different levels in the marketing channel.
6. Assume risks connected with carting out connected with channel work.
7. Provide for successive storage and movement of physical products.
8. Provide for buyers' payment of their bills through bank and other financial institutions.
9. Oversee actual transfer of ownership from one organization or person to another.

In channel management, the flow of physical, title, payment, information and promotion is to be managed to ensure the accessibility and availability of products to consumers. There could be three types of flows:

Forward flow: When functions and activity flow moves from manufacturer to the customer. For e.g. physical goods, title and promotion.

Backward flow: When functions and activity flow moves from customer to the manufacturer. For e.g. ordering and payment.

Two-way flow: When the function and activity flow moves in both the direction. For e.g. information, negotiation, finance and risk taking.

Channel Levels

The producer and the final customer are part of every channel. The number of intermediaries between the two determines the length of a channel.

A **zero level channel** also called a **direct marketing channel** consists of a manufacturer selling directly to the final customer.

The major examples of a direct marketing channel are door to door sales, home parties, mail order, telemarketing, T V and internet selling and manufacturer owned stores.

A **one level channel** contains one selling intermediary, such as a retailer.

A **two level channel** contains two selling intermediaries, typically a wholesaler and retailer.

A **three level channel** contains three intermediaries. In meat packing industry, wholesalers sell to jobbers who in turn sell to retailers.

In Japan, food distribution may involve as many as six levels. As the number of intermediaries increases, it becomes difficult for the manufacturer to get information about the consumers and exercise control on them.

Service Sector Channels

Marketing channels are not limited to the distribution of physical products. Producers of services also face the problem of making their output available and accessible to the target customers. Schools develop "educational dissemination systems" and hospitals develop "health-care delivery systems" These institutions have to figure out agencies and locations for reaching out to target segments spread out over an area.

As internet and other technology advances, service sector companies such as banking, insurance, travel and stock buying and selling are operating through new channels. Banks allow their customers to conduct transactions through retail branches, atm kiosks, internet banking and mobile banking.

Information highway channels

Let us now understand what is information highway channel. Earlier the information passed through word of mouth, posters or mail. As the technology developed information was passed speedily and accurately. Each information channel could earlier carry any one type of information. Telephone could carry voice, cable network could carry video programs and ATMs could carry data. Later, the thrust was to expand bandwidth so that information channel can effectively carry data, voice, video and text. Today, with rapid growth of internet, extranet and intranet, huge demand for information channel capacity is created.

For these information highway channel to function effectively, inputs from four different types of companies are required: content developing companies, consumer devices companies,

component companies and conduit companies. All these type of companies together make the information industry and have developed capabilities of beaming data, voice, video and text together.

Channel Dynamics

Vertical Marketing System- The Vertical Marketing System i.e. VMS comprises of manufacturer, wholesaler and retailer acting as a unified system. All the channel members are professionally managed and centrally controlled by a channel member called as **category captain**. The category captain either owns the other members or franchises them or is so powerful that others will cooperate. VMS eliminates channel conflict and controls channel behaviour, improves **distribution** efficiency and brings in economies of scale through size, bargaining power and elimination of duplication of services. There are three types of VMS: -

1. **Corporate VMS**- It combines successive stages of a marketing channel network like production and distribution under single ownership.
2. **Administered VMS**- In this type, successive stages of production and distribution are coordinated through the size and power of one of the channel members. Manufacturers of a well-known brand are able to secure strong trade cooperation and support from the resellers.
3. **Contractual VMS**- In this structure also known as **Value Added Partnerships,** independent channel members at different levels of production and distribution integrate on a contractual basis to obtain more economies or sales impact than they could achieve alone. Contractual VMS are of three types; first **wholesaler sponsored voluntary chains,** second **retailer cooperatives** and third **franchisee organizations.**

Horizontal Marketing Systems

In this type of channel structure, two or more unrelated companies put together resources to exploit emerging marketing opportunity. For e.g. a retail chain ties up with a bank to offer instore banking services.

Multichannel Marketing Systems

When a company uses two or more channels to reach out to one or more customer segments. For e.g. a company can use a dealer network, multilevel marketing channel and online retail channel to sell its products. By using multichannel marketing system, a company can increase its market coverage, lower its selling costs and customize its selling. But, new channels could introduce more conflict and control problems.

Conflict, Cooperation and Competition

No matter how good channel is designed and managed, there will be some conflict. **Channel Conflict** is generated when one channel members action prevents the other channel member to achieve its goals. We will now try to understand the types of channel conflicts, its causes and means to resolve conflicts.

Types of Conflict

Broadly speaking, there are three types of conflict. **Vertical channel conflict** means conflict between different levels within the same channel. For e.g. when an automobile manufacturer tries to enforce policies on service, pricing and advertising on its dealers. **Horizontal channel conflict** involves conflict between members at the same level. For e.g. when a pizza company's franchisee complained about other franchisee cheating on ingredients, providing poor service and hurting the overall image of the pizza company. **Multichannel conflict** occurs when manufacturer has two or more channels that sell to the same market. This conflict is more intense when one channel gets a lower price or lower margins. When a well-known men apparel brand started selling through departmental store, its exclusive retailers were upset. They were pacified by designing exclusive merchandise for their stores which will not be sold elsewhere.

Causes of Channel Conflict

It is important to find out causes of channel conflict so they can be resolved amicably. The major reasons for conflict are goal incompatibility, unclear roles and rights, differences in perceptions, intermediary's dependence on the manufacturer.

Managing Channel Conflict

There are several mechanisms for effective conflict management. One is the adoption of **superordinate goals** like survival, market share, high quality or customer satisfaction. Sometimes **dual compensation** is used to resolve the conflict by paying the existing channel for making sale through a new channel. Another is to **exchange employees** between two or more channel level. For e.g. Automobile company's executive might agree to work for short time in some dealership, and manufacturer's dealer policy department. One more method to resolve conflict is to encourage **joint membership** of manufacturer and intermediaries in trade associations. One more mechanism available to firms to reduce channel conflict is **co-optation** wherein it is an effort by one organization to win the support of leaders of another by including them in advisory councils, boards of directors. When conflict is acute or becomes chronic then channel members have to resort to Diplomacy, Mediation and Arbitration. **Diplomacy** takes place when each side sends a person or group to meet with its counterpart to resolve the conflict. **Mediation** relies on a neutral third party skilled in reconciling the two parties interest. In **Arbitration** two parties agree to present their argument to one or more arbitrators and accept their decision. If nothing else prove effective, a channel partner may choose a **legal recourse** and file a legal suit.

Legal and Ethical issues in Channel Relations

Though companies are legally free to develop their own channel arrangements the law seeks to prevent companies from using exclusionary tactics that might keep competitors from using a channel. There are four practices where legality must be considered including exclusive dealing, exclusive territories, trying agreements, and dealers' rights. In **exclusive dealing,** producers allow only certain outlet to carry its products and the dealers cannot handle competitor's product. In **exclusive territories,** the producer may agree not to sell to other dealers in a given area, or the buyer may agree to sell only in its own territory. In **tying agreement**, producer of strong brand sometimes sell it to dealers only if they will take some or all of the rest of line. The producers are free to select dealers, but their right to terminate is restricted. Producers cannot drop dealers if they refuse to cooperate in doubtful arrangement, such as exclusive dealing or tying agreements.

So now we will look at two major types of intermediaries in the channel in detail. The first one is

Retailing

Retailing includes all the activities involved in selling goods or services directly to end users for personal, non-business use. A retailer or retail store is a business enterprise whose sales volume comes from retailing. Some of the major types of retailers are:

Specialty Store: Store with narrow product lines with a deep assortment such as furniture store, jewellery store, bookstore, apparel store, sporting goods store and florist.

Departmental Store: Store with several product lines typically clothing, accessories and home furnishing and linen where each product line is operated as a separate department managed by specialized buyers.

Supermarket: This is a large, low-cost, low-margin, high volume self-service store designed to meet the total need for food and grocery products.

Convenience Store: This is a relatively small store located near residential area, open long hours, seven days a week carrying a limited line of high turnover products.

Discount Store: Store which sells standard or specialty merchandise at lower prices with lower margins and high volumes.

Off price Retailer: When a store sells left over goods, overruns, irregular merchandise which is bought at less than regular wholesale price and sold at less than retail. Independent off price retailers, factory outlets and warehouse clubs are types of off price retailer.

Superstore: This is a store with huge selling space, aimed at meeting customer's total needs for routinely purchased food and non-food products. Hypermarkets, combination store and category killer are types of superstore.

Catalogue Showroom: They have broad selection of high mark-up, fast moving, brand name goods sold through a catalogue at discount prices.

Now, I will throw light on the various **marketing decision** a retailer has to take which helps him decide on his retailing mix. A retailer has to take decisions in the areas of target market, product assortment and procurement, service mix to differentiate the store, store atmosphere, store activities and experiences, pricing, communication and location.

Trends in Retailing

At this point, we can understand the major developments retailers need to consider to plan competitive strategies. The retail landscape is dynamic and many **new forms and combination retailers** are on the rise. There is growth in **intertype competition** and store based retailers are competing with non-store retailers. Due to **investment in superior information technology** and logistic system **giant corporate retailers are growing** and **having a global** luxury offerings or discounters and middle **market retailers are declining.**

Wholesaling

It includes all the activities involved in selling goods and services to those who buy for resale or business use. Wholesalers are efficient in performing variety of functions like selling and promoting of goods, buying and assortment building, bulk breaking, warehousing inventories, transporting goods, financing customers and suppliers, absorbing risk, gathering marketing information and providing management services and counselling to retailers. Wholesaling has grown in recent years due to number of factors.

Types of Wholesaling

The major types of wholesalers are:

Merchant Wholesalers: These are independently owned businesses that take title to the merchandise they handle. They are full service and limited service wholesalers. They could be jobbers, distributors and mill supply houses.

Brokers and Agents: These are intermediaries who facilitate buying and selling, on commission of 2 to 6 percent of the selling price. They generally specialize by product line. Brokers bring buyers and sellers together and assist in negotiation. E.g. real estate brokers. Agents represent buyers or sellers on a permanent basis.

Manufacturers' and Retailers' branches and offices: Wholesaling operations are conducted by the sellers or buyers themselves by dedicating branches or offices rather than independent wholesalers.

Specialized Wholesalers: Wholesalers with expertise in dealing with specific type of products. For E.g. agricultural assemblers, petroleum bulk plants and terminals and auction companies.

Marketing decisions

Today wholesalers are facing challenges and pressures from new sources of competition, demanding customers and new technologies. Their focus is to increase productivity by improving their strategic decisions on target market, product assortment and services, price, promotion and place.

Trends in Wholesaling

To efficiently manage multiple problems faced by wholesaling organizations, many organizations have implemented **physical distribution management i.e. PDM systems.** Some of the PDM systems used by wholesalers are Just In Time system, Reverse Logistics, Supply Chain Management and Enterprise Resource Planning.

Market Logistics

Market Logistics manages the physical flow of material and final goods from the point of origin to the point of use, to meet customer requirements at a profit.

Objectives

To achieve the objective of getting the right goods at the right time with least cost, an organization will have to make strong trade-offs between maximization of customer service outputs and minimization of distribution costs.

Market Logistics Decisions

An organization has to make four major decisions with regard to market logistics.

1.How should orders be handled i.e. **Order Processing**.

2.Where should stocks be located i.e. **Warehousing.**

3.How much stock should be held i.e. **Inventory.**

4.How should goods be shipped i.e. **Transportation.**

Organizational Lessons

Three most important lessons have been learnt by organizations based on their market logistics experience.

1.Organization should appoint a senior executive accountable for all logistical decisions.

2.The senior executive should conduct periodic review meetings with sales and operations people

3.Software and systems should be continuously updated to achieve superior logistical performance.

Summary

Now, we will summarize today's session. We have covered the different type of channels that a marketer can use to cover the various customer segments and functions of these channel members. In the dynamic markets of current times, the marketing channels have evolved into vertical marketing systems, horizontal marketing system and multichannel marketing system. There is potential for conflict among channel members arising out of goal incompatibility, unclear roles and rights, differences in perceptions and interdependent relationships. These conflicts can be managed using multiple mechanisms. We also discussed about two major types of intermediaries i.e. retailers and wholesalers, their major types, their marketing decisions on target market, product assortment, promotion, price, service outputs and how these decisions must take into consideration major trends. The last part of the place decision that we focused on was market logistics which is the best way to store and move products and services to market destinations at least cost.

Hope today's session was enlightening.