

Distribution Channels Strategy I

CHAPTER 12: Delivering Customer Value

MK 201 Principles of Marketing
By Aj.Suwalya K.

Objective Outline

- **Objective 1:** Explain why companies use marketing channels and discuss the functions these channels perform
- **Objective 2:** Discuss how channel members interact and how they organize to perform the work of the channel.
- **Objective 3:** Identify the major channel alternatives open to a company.
- **Objective 4:** Explain how companies select, motivate, and evaluate channel members.
- **Objective 5:** Discuss the nature and importance of marketing logistics and integrated supply chain management.

Netflix's Channel Innovation:

Finding the Future by Abandoning the Past



Netflix's innovative distribution strategy: From DVD by mail, to Watch Instantly, to video streaming on almost any device, Netflix has stayed ahead of the howling pack by doing what it does best- revolutionize distribution. What's next?

Adidas.com/originals

Unite all originals



Value delivery network: In making and marketing even just its adidas originals line, adidas manages a huge network of people within the company plus thousands of outside suppliers, resellers, and marketing firms that must work together to create customer value and establish the line's "unite all originals" positioning.

Objective 1

Supply Chains and the Value Delivery Network

The Nature and Importance of Marketing Channels

Supply Chains and the Value Delivery Network

- ❖ Value Delivery Network: A network composed of the company, suppliers, distributors and ultimately, customers who partner with each other to improve the performance for the entire system in delivering customer value.
- ❖ Marketing channel (or distribution channel): A set of interdependent organizations that help make a product or service available for use or consumption by the consumer or business user.



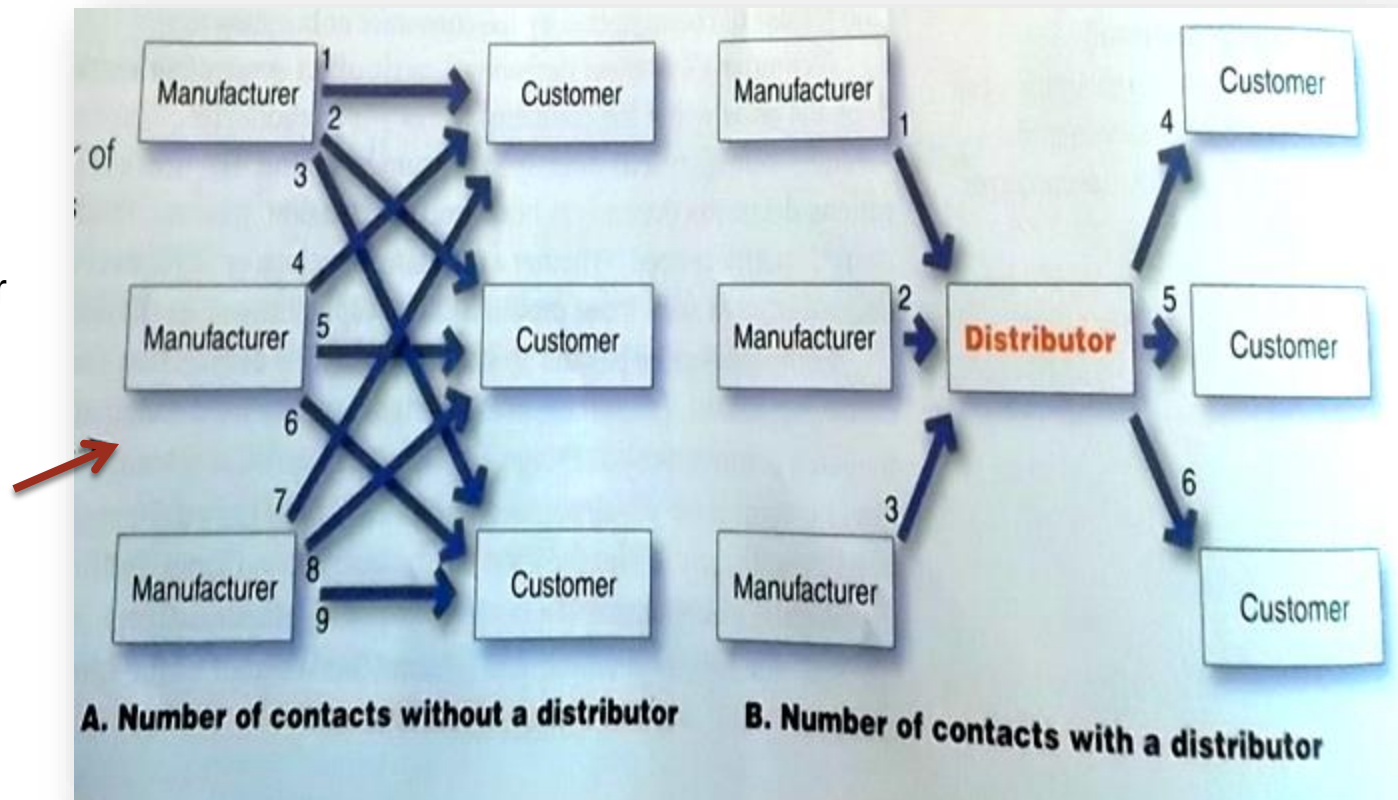
Value delivery network: In making and marketing just one of its many models, say, the Honda Insight hybrid – Honda manages a huge network of people within Honda plus thousands of suppliers and dealers outside the company who work together to give customers an innovative car “from Honda to Everyone”

Supply Chains and the Value Delivery Network

How Channel Members Add Value

Figure 12.1 How a Distributor Reduces the Number of Channel Transactions

Marketing channel intermediaries make buying a lot easier for consumers. Again, think about life without grocery retailers. How would you go about buying that 12 pack of Coke or any of the hundred of other items that you now routinely drop into your shopping cart?



Supply Chains and the Value Delivery Network

Members of the marketing channels perform many key functions. Some help to complete transactions:

- ✓ Information: Gathering and distributing information about consumers, producers, and other actors and forces in the marketing environment needed for planning and aiding exchange.
- ✓ Promotion: Developing and spreading persuasive communications about an offer.
- ✓ Contact: Finding and communicating with prospective buyers.



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รับสิทธิ ณ จุดจำหน่ายมือถือ และทรูมูฟ ที่บิ๊กซี และบิ๊กซีเอ็กซ์ตรา
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*เฉพาะเครื่องที่รองรับการใช้งาน 3G บนคลื่นความถี่ 850เมกะเฮิรตซ์ (850MHz.)

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GO Live Dual Core
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GO Live S2
2,990 บาท
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AirCard 21 Mbps
1,190 บาท
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GO Live 2
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ได้โทรและเล่นเน็ตฟรี 1,290 นาที



AirCard 7.2 Mbps
790 บาท
รับโบนัสสูงสุด 790 บาท

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นานสูงสุด 10 เดือน
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สมาร์ตโฟน 850 MHz.จากบิ๊กซี พร้อมให้คุณได้สัมผัสประสบการณ์ 3G กับทรูมูฟ เอช
ผู้นำเครือข่าย 3G ที่ใหญ่ที่สุด และดีที่สุดของไทย



Nokia Lumia 920 ราคา 18,900 บาท Nokia Lumia 820 ราคา 8,250 บาท Nokia Lumia 720 ราคา 10,900 บาท Nokia Lumia 620 ราคา 5,850 บาท Samsung Galaxy S4 ราคา 21,900 บาท Samsung Galaxy Note II ราคา 15,200 บาท Samsung Galaxy Tab 2 7.0 ราคา 8,900 บาท Samsung Galaxy Grand ราคา 11,900 บาท HTC One X ราคา 21,900 บาท BlackBerry Z 10 ราคา 20,900 บาท

A CAT reseller

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Supply Chains and the Value Delivery Network

- ✓ Matching: Shaping offers to meet the buyer's needs, including activities such as manufacturing, grading, assembling and packaging.
- ✓ Negotiation: Reaching an agreement on price and other terms so that ownership or possession can be transferred.



Supply Chains and the Value Delivery Network

Others help fulfill the completed transactions:

- Physical distribution: Transporting and storing goods.
- Financing: Acquiring and using funds to cover the costs of the channel work.
- Risk taking: Assuming the risks of carrying out the channel work



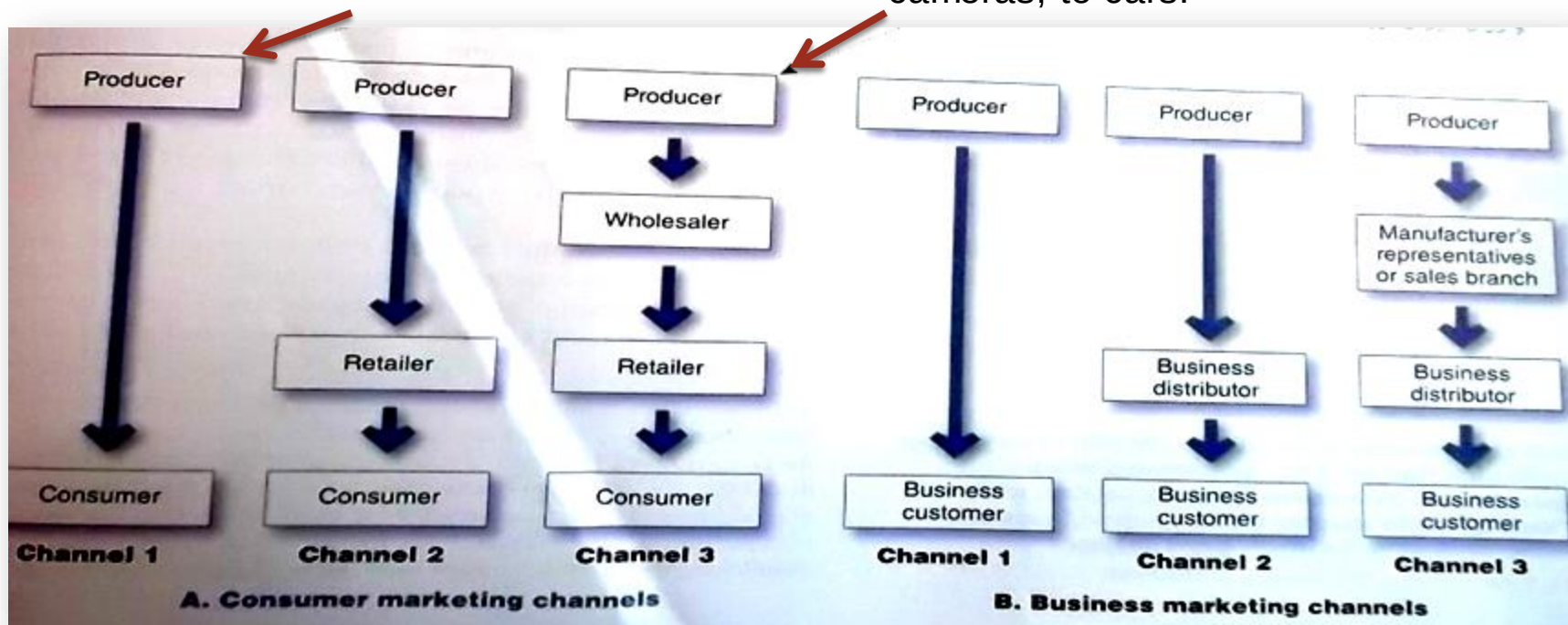
Supply Chains and the Value Delivery Network

Number of Channel Levels

Figure 12.2 Consumer Business Marketing Channels

Using direct channels a company sells directly to consumers (no surprise there).
Examples: GEICO and AMWAY.

Using indirect channels, the company uses one or more levels of intermediaries to help bring its products to final buyers.
Examples: most of the things you buy-everything from toothpaste, to cameras, to cars.



Supply Chains and the Value Delivery Network

- ❖ Channel level: A layer of intermediaries that performs some work in bringing the product and its ownership closer to the final buyer.
- ❖ Direct marketing channel: A marketing channel that has no intermediary levels.
- ❖ Indirect marketing channel: A marketing channel containing one or more intermediary levels.

Objective 2

Channel Behavior and Organization

Channel Behavior and Organization

Channel Behavior

- ❖ Channel conflict: Disagreements among marketing channel members on goals, roles, and rewards-who should do what and for what rewards.
- ❖ Horizontal conflict: occurs among firms at the same level of channel. For example Ford dealers
- ❖ Vertical conflict: conflict between different levels of the same channel. For example KFC



Channel Conflict: KFC came into conflict with its franchisees over the brand's "Unthink KFC" repositioning, which emphasized grilled chicken over its traditional Kentucky fried. "We ought to be shooting the competition, " says one franchisee."Instead, we're shooting one another."



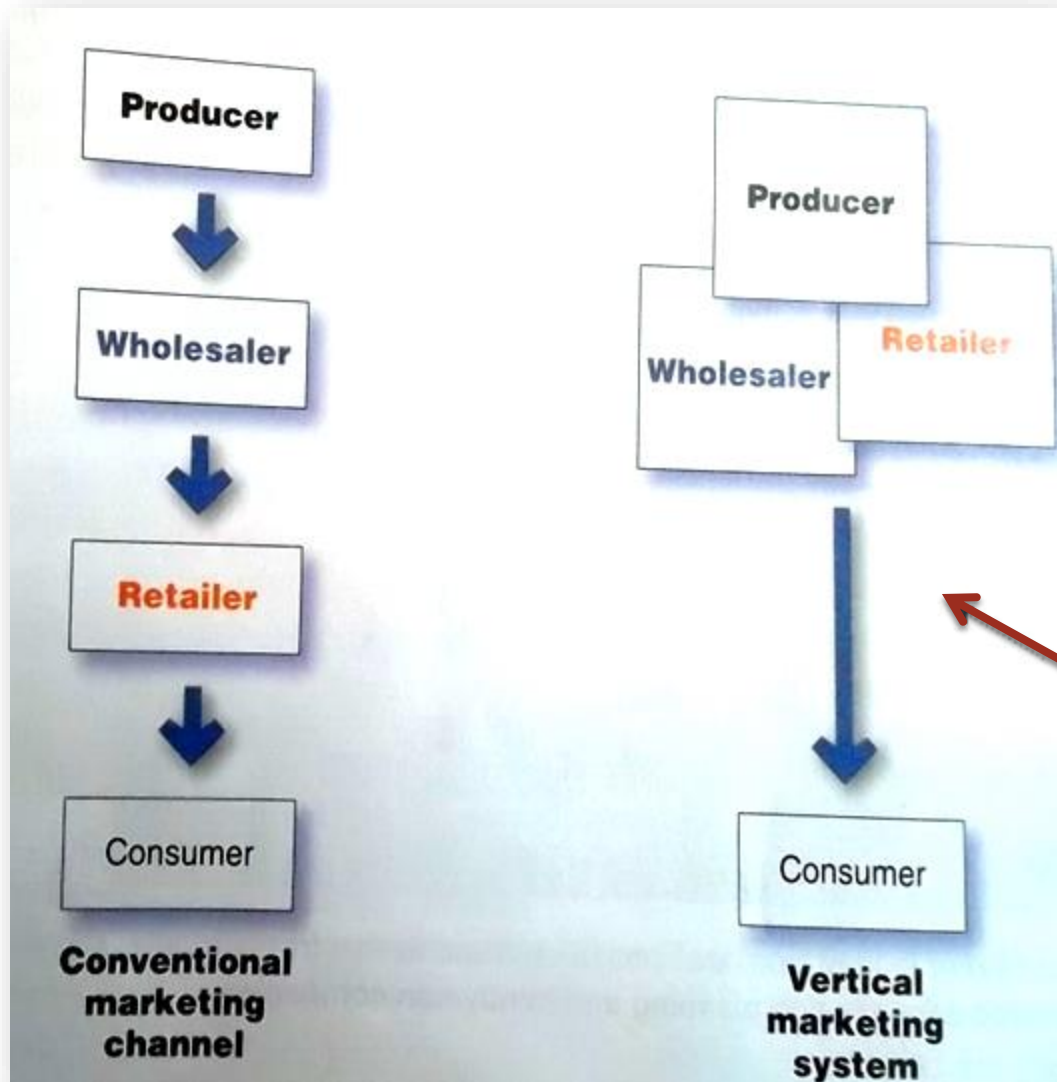
Channel Conflict: Growing McDonald's franchisee discontent may explain the increasing lack of smiles on the faces of both McDonald's cashiers and customers. "There's a huge connection" between franchisee satisfaction and customer service.

Channel Behavior and Organization

Vertical Marketing Systems (VMS)

- ❖ Conventional distribution channel: A channel consisting of one or more independent producers, wholesalers, and retailers, each a separate business seeking to maximize its own profits, perhaps even at the expense of profits for the system as a whole.
- ❖ Vertical marketing system (VMS): A 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.

Figure 12.3 Comparison of Conventional Distribution Channel with Vertical Marketing System



Vertical marketing system- here's another fancy term for a simple concept. It's simply a channel in which members at different levels (hence, vertical)work together in a unified way(hence system) to accomplish the work of the channel.

Channel Behavior and Organization

Vertical Marketing Systems (VMS)



- ❖ **Corporate VMS:** A vertical marketing system that combines successive stages of production and distribution under single ownership- channel leadership is established through common ownership. Ex. Zara

Channel Behavior and Organization

Vertical Marketing Systems (VMS)

- ❖ **Contractual VMS:** A vertical marketing system in which independent firms at different levels of production and distribution join together through contracts. Most common is franchise organization.



Channel Behavior and Organization

Vertical Marketing Systems (VMS)

- ❖ **Franchise organization: A contractual vertical marketing system in which a channel member, called a franchisor, links several stages in the production-distribution process**
- **There are 3 types:**
 - Manufacturer sponsored retailer franchise system- Ford and its network of independent franchised dealers.
 - Wholesaler franchise system- Coca-Cola licenses bottlers(wholesalers) in various world markets who buy Coca-Cola syrup concentrate and then bottle and sell the finished product to retailers locally.
 - Service-firm-sponsored retailer franchise system – Burger King and its nearly 12,300 franchisee-operated restaurants around the world.

Turn this over & save!

Problem Solved

To-Do List
Gutter Cleaning & Repair
Storm Windows
Dry Wall Repair
Door Installs & Repairs
Garage Clean-up

Are your leaves falling?

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Mr. Handyman
On time. Done right.®

Need help with fall clean-up? Mr. Handyman can help with indoor and outdoor home improvements, gutter cleaning and repairs, window installs and repairs, storm doors, garage clean-up and much more!

See everything Mr. Handyman can do at mrhandyman.com

Repair Improve Maintain

A white Mr. Handyman service van with red and yellow accents. The van has the company logo on the side, which includes a stylized figure of a handyman. Text on the side of the van includes "On time. Done right." and the website "www.mrhandyman.com". A person is visible in the driver's seat.

Franchise systems: Almost every kind of business has been franchised- from motels and fast-food restaurants to dating services and cleaning and handyman companies.

Franchise systems: Almost every kind of business has been franchised. For example, Anytime Fitness, where you can "Get to a healthier place," brings convenient, affordable, and fun fitness to nearly 2.5 members through 3,000 franchise outlets around the nation and the world.



Now I spend my
"me time" on
the elliptical
every morning.

*This is
my fit.*

*This is
my fit.*

Working out on
business trips is
always a great
stress reliever.

**ANYTIME
FIT NATION**

FIND YOUR FIT. Join the nation today. www.anytimefitness.com #AnytimeFitNation

Channel Behavior and Organization

Vertical Marketing Systems (VMS)

- ❖ **Administered VMS:** A vertical marketing system that coordinates successive stages of production and distribution through the size and power of one of the parties.
- GE, P&G and Kraft command unusual cooperation from many resellers regarding displays, shelf space, promotions, and price policies.



Channel Behavior and Organization

Horizontal Marketing Systems

- ❖ **Horizontal Marketing Systems:** A channel arrangement in which two or more companies at one level join together to follow a new marketing opportunity.





Horizontal marketing channels: McDonald's places "express versions of its restaurants in Walmart stores. McDonald's benefits from Walmart's heavy store traffic and Walmart keeps hungry shoppers from needing to go elsewhere to eat.



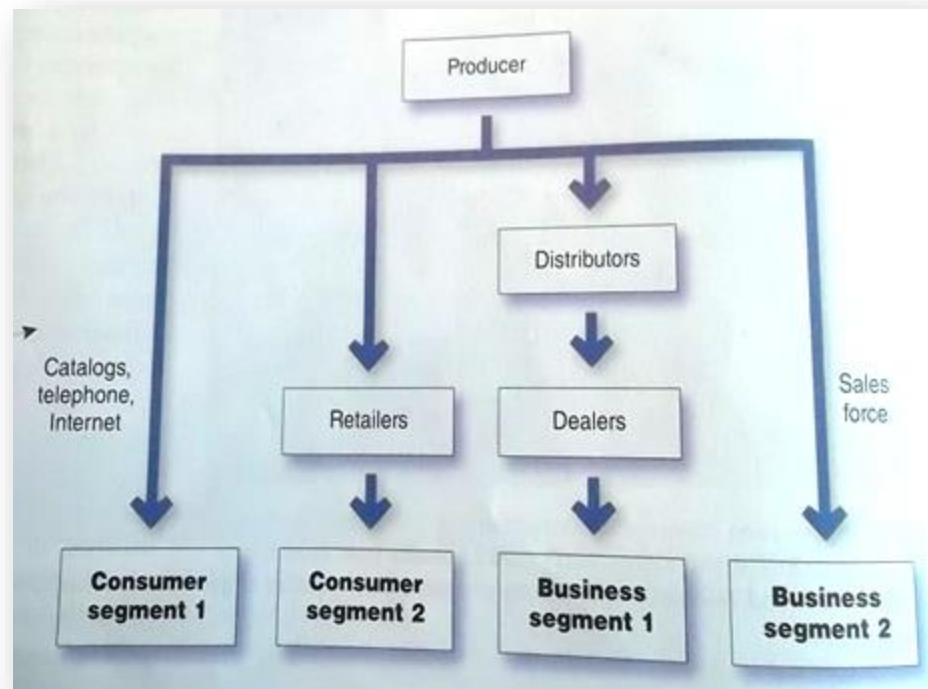
Horizontal marketing channels: General Mills and Nestle operate a joint venture- Cereal Partners Worldwide-that markets General Mills Big G cereal brands outside North America.

Channel Behavior and Organization

❖ **Multichannel Distribution Systems:** A distribution system in which a single firm sets up two or more marketing channels to reach one or more customer segment

Figure 12.4 Multichannel/Distribution System

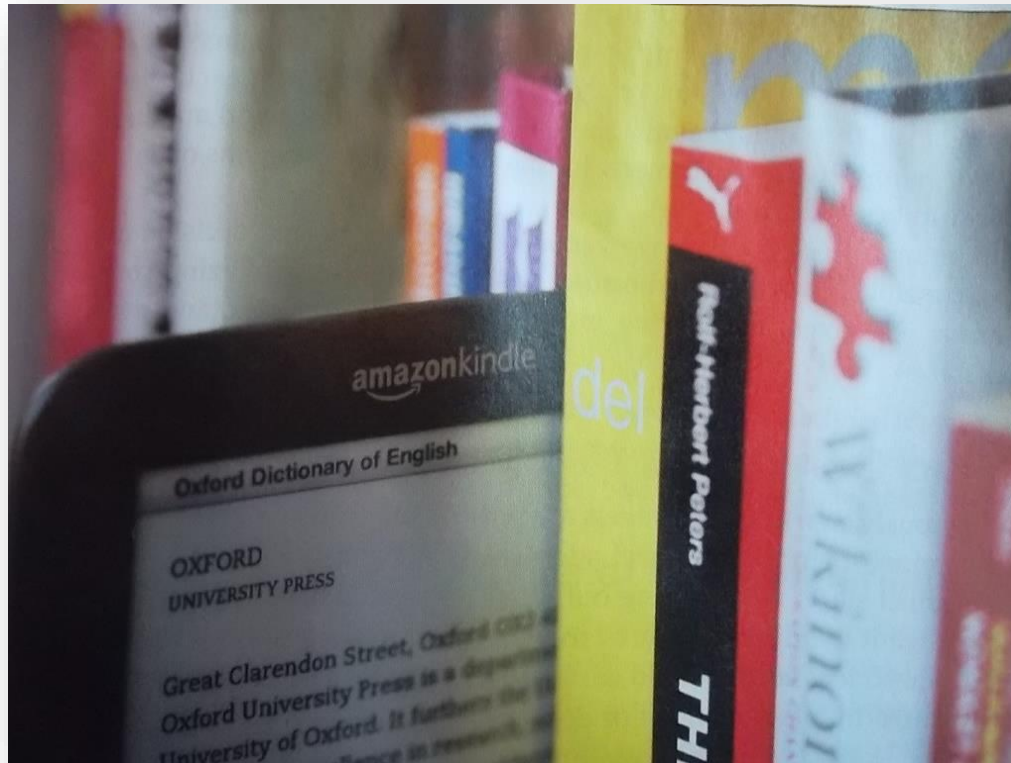
Most large companies distribute through multiple channels. For example, you could buy a familiar green and yellow John Deere lawn tractor from a neighborhood John Deere dealer or from Lowe's. A large farm or forestry business would buy larger John Deere equipment from a premium full-service John Deere dealer and its sales force.



Changing Channel Organization

- ❖ Disintermediation: the cutting out of marketing channel intermediaries by product or service producers or the displacement of traditional resellers by radical new types of intermediaries.

Changing Channel Organization



Disintermediation: Resellers must innovate or risk being swept aside. For example, Barnes and Nobel, the giant that helped put so many independent booksellers out of business, now faces disintermediation at the hands of online booksellers and digital e-book downloads.

Objective 3

Channel Design Decisions

Channel Design Decisions

- ❖ **Marketing Channel Design:** Designing effective marketing channels by analyzing customer needs, setting channel objectives, identifying major channel alternatives, and evaluating those alternatives.



Channel Design Decisions

➤ 1. Analyzing Consumer Needs



Meeting customer's channel service needs: Your local hardware store probably provides more personalized service, a more convenient location, and less shopping hassle than a huge Home Depot or Lowe's store. But it may also charge higher prices.



Meeting customer's channel service needs: Ace Hardware positions itself as "The helpful place." To loyal Ace customers, the convenience of smaller stores and the personal service they receive are well worth Ace's somewhat higher prices.

Channel Design Decisions

➤ 2. Setting Channel Objectives

- Target level of customer service?
- Influenced by nature of the company



➤ 3. Identifying Major Alternatives

- A. Types as Intermediaries
- B. Number of Marketing Intermediaries
 - Intensive distribution: Stocking the product in as many outlets as possible
 - Exclusive distribution: Giving a limited number of dealers the exclusive right to distribute the company's products in their territories
 - Selective distribution: The use of more than one but fewer than all of the intermediaries who are willing to carry the company's products.



Exclusive distribution: Breitling watches- positioned as "Instruments for Professionals"and with prices to match- are sold by only a few authorized dealers in a given market area.

Channel Design Decisions

- C. Responsibilities of Channel Members
 - Mutual services and duties must be spelled out carefully especially in franchised and exclusive distribution channels. For example McDonald's.

➤ 4. Evaluating the Major Alternatives

- **Economic criteria-** compares the likely sales, costs, profitability of different channel alternatives.
- **Adaptability criteria:** channels often involve long term commitment, wants to keep channels flexible so they could adapt to environmental changes.

Channel Design Decisions

Designing International Distribution Channels



The McDonald's delivery guy: In cities like Beijing, Seoul, and Cairo, armies of motorbike delivery drivers outfitted in colorful uniforms and bearing food in specially designed boxes strapped to their backs make their way through bustling traffic to deliver Big Macs.

Objective 4

Channel Management Decisions

Public Policy and Distribution Decisions

Channel Management Decisions

- ❖ Marketing channel management: Selecting, managing, and motivating individual channel members and evaluating their performance over time.
- Selecting Channel Members
- Managing and Motivating Channel Members
 - Partner relationship management
- Evaluating Channel Members
 - Regularly check channel member performance against standards such as sales quotas, average inventory levels, customer delivery time, treatment of damages and lost goods, cooperation in company promotion and training programs, and services to the customer.



Selecting Channels: Even established brands may have difficulty keeping desired channels. CVS Caremark's decision to stop selling cigarettes left tobacco companies seeking new sales channels



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Real Marketing 12.1

Amazon and P&G: Taking Channel Partnering to a New Level



Partnering in the distribution channel: Under Amazon's Vendor Flex program, P&G and Amazon share warehouse facilities, creating distribution cost and delivery advantages for both partners.

Channel Management Decisions

Public Policy and Distribution Decisions

- **Exclusive distribution:** when a seller allows certain outlets to carry its products.
- **Exclusive dealing:** when the seller requires that these dealers not handle competitor products.
- **Exclusive territorial agreements:** 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.
 - Normal under franchise system-> increase enthusiasm and commitment

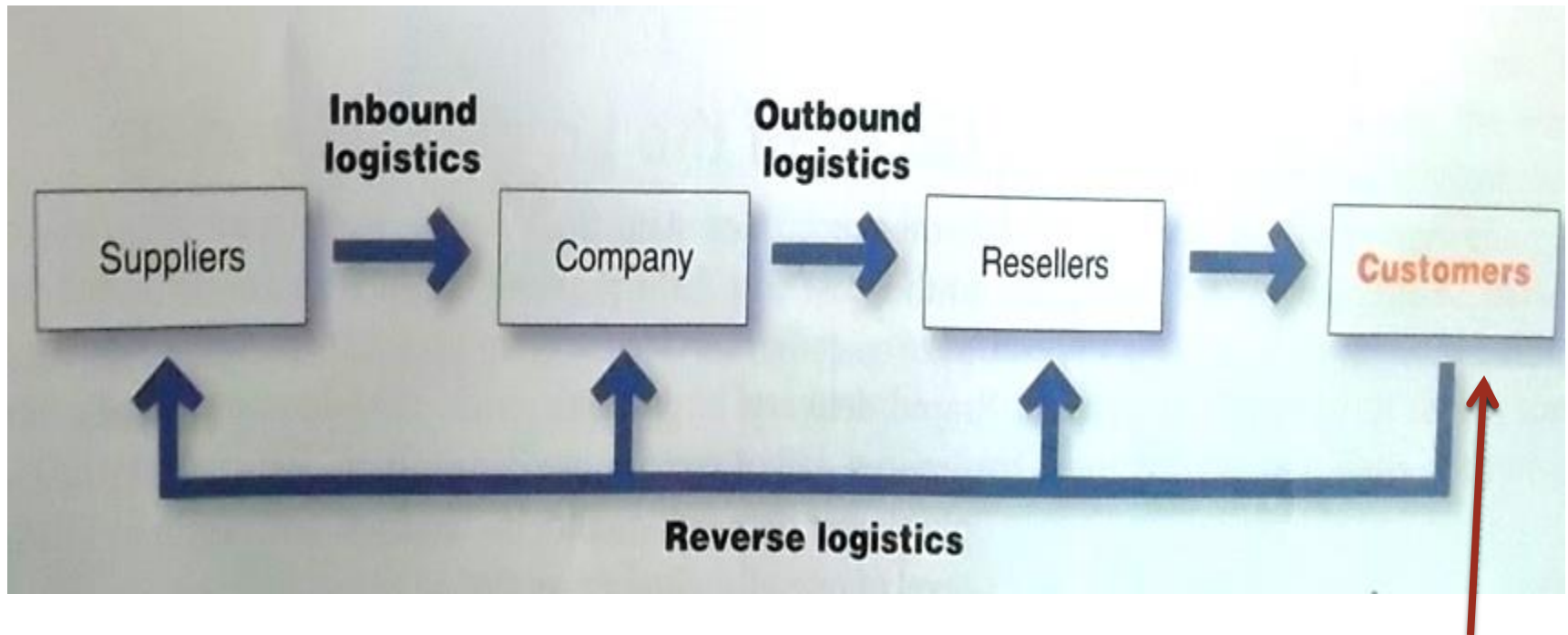
Marketing Logistics and Supply Chain Management

Nature and Importance of Marketing Logistics

- ❖ **Marketing logistics (or physical distribution):** Planning, implementing, and controlling the physical flow of materials, final goods, and related information from points of origin to points of consumption to meet customer requirements at a profit.
- ❖ **Supply chain management:** Managing upstream and downstream value-added flows of materials, final goods and related information among suppliers, the company, resellers and final consumers.

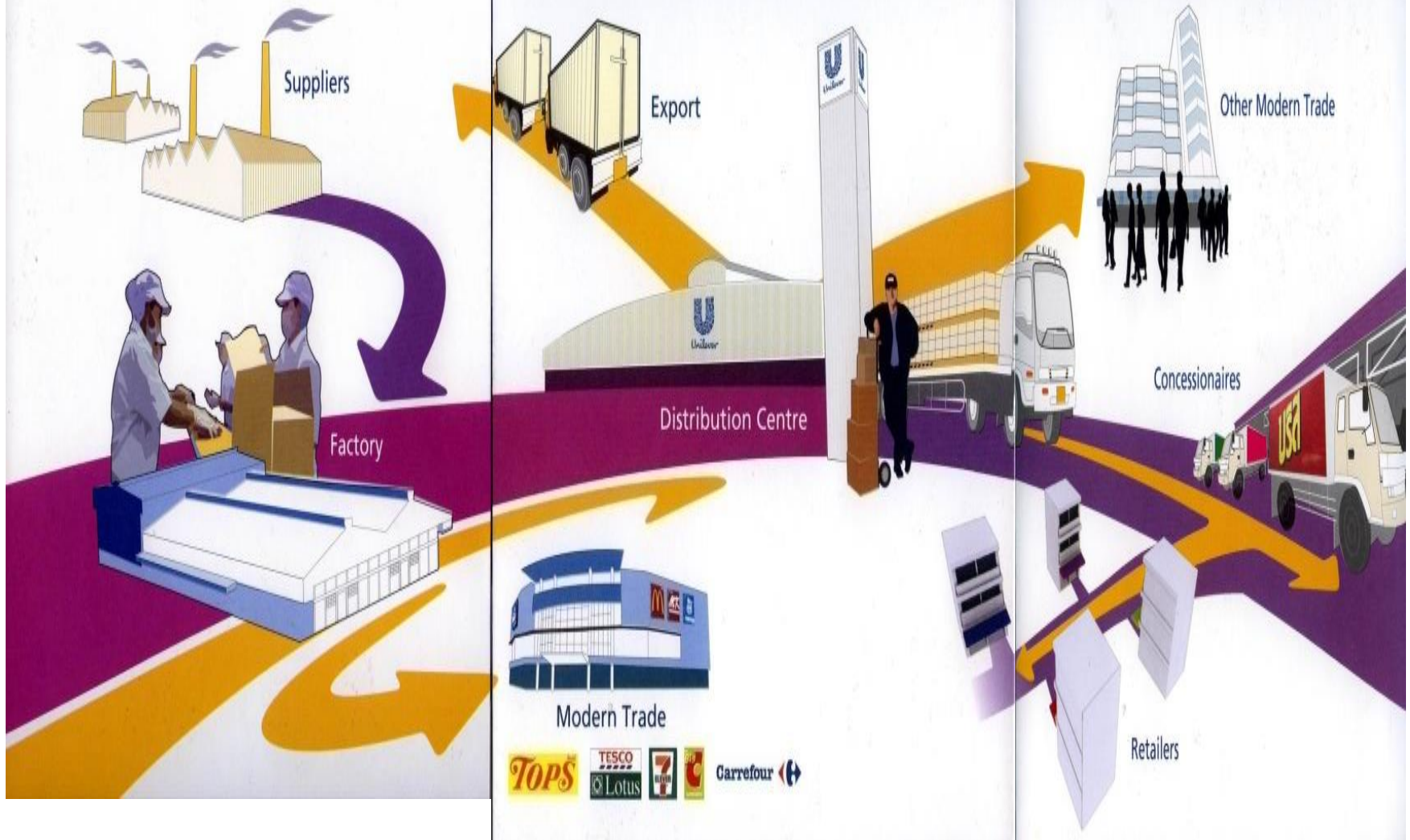
Marketing Logistics and Supply Chain Management

Figure 12.5 Supply Chain Management



Managing the supply chain calls for customer-centered thinking. Remember it's also called the customer-value delivery network.

Unilever Supply Chain and Its Partners ~ Quality All the Way



Marketing Logistics and Supply Chain Management



Logistics: As this huge stockpile of shipping containers suggests, American companies spent \$1.1 trillion last year-7.7 percent of U.S. GDP- to bundle, load, unload, sort, reload, and transport goods.

Real Marketing 12.2

Greening the Supply Chain: It's the Right Thing to Do- and It's Profitable, Too



The Higg Index
Sustainable Apparel
Coalition

Green supply chains: Nike has developed a sweeping strategy for greening its supply chain. The Higg Index lets Nike work with suppliers and distributors to reduce the supply chain's environmental footprint,

Marketing Logistics and Supply Chain Management

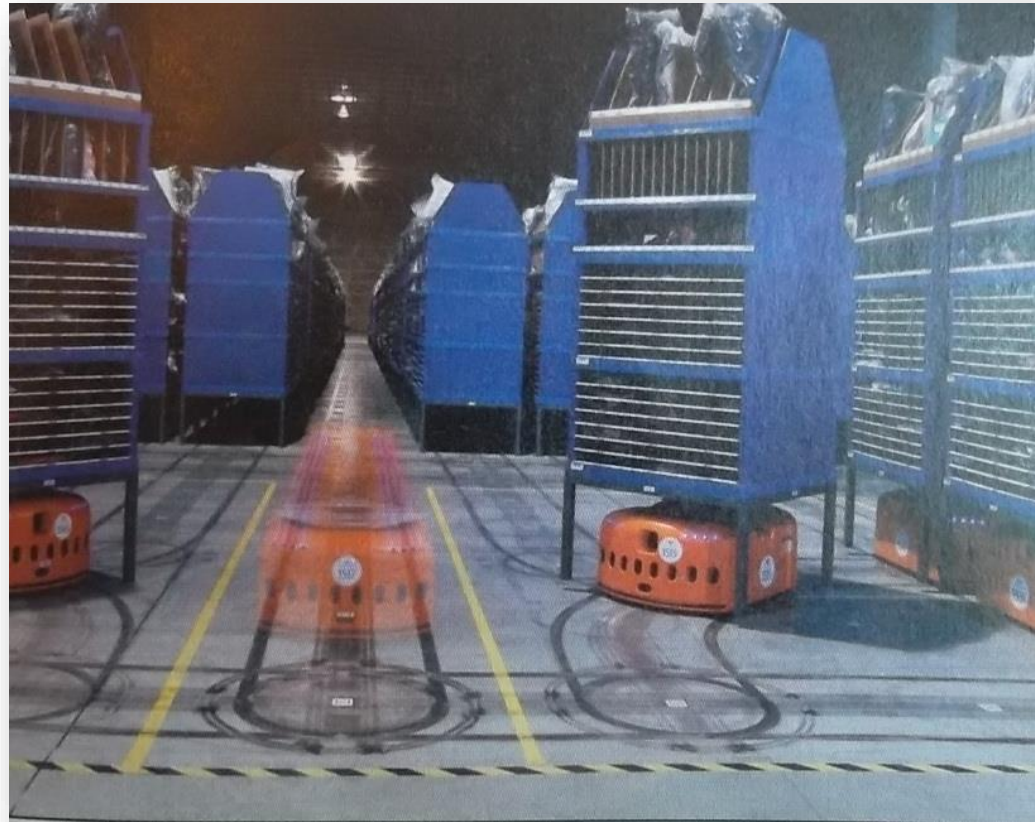
➤ Goals of Logistics System

- Provide a targeted level of customer service at the least cost.
- Maximize profits not sales

➤ Major Logistics Functions

- ❖ 1. Distribution center: A large, highly automated warehouse designed to receive goods from various plants and suppliers, take orders, fill them efficiently, and deliver goods to customers as quickly as possible.

Marketing Logistics and Supply Chain Management

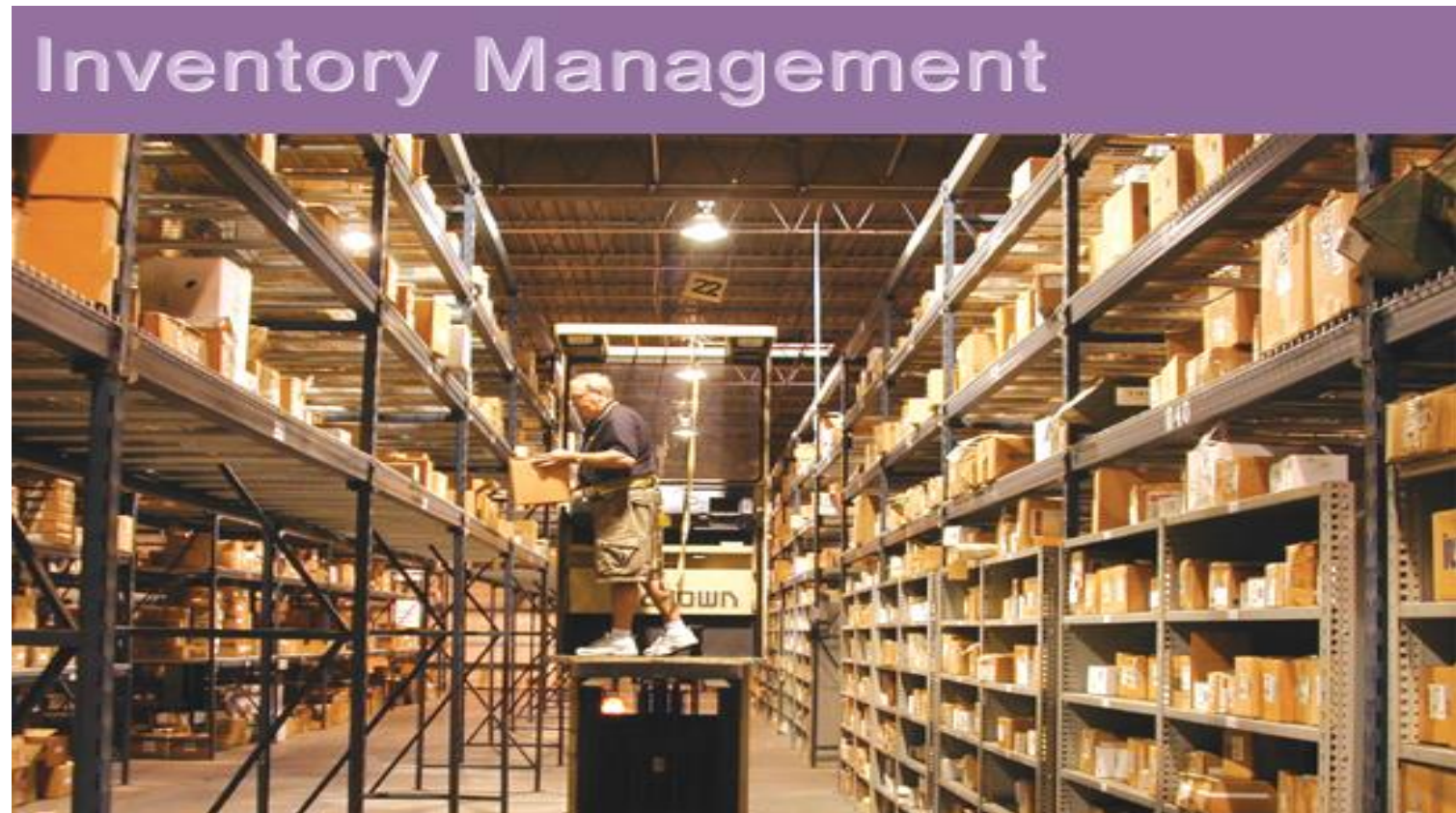


High-tech distribution centers: Staples employs a team of super-retrievers-in day-glo orange- to keep its warehouse humming.

Marketing Logistics and Supply Chain Management

2. Inventory Management

- Carrying too little , too much?

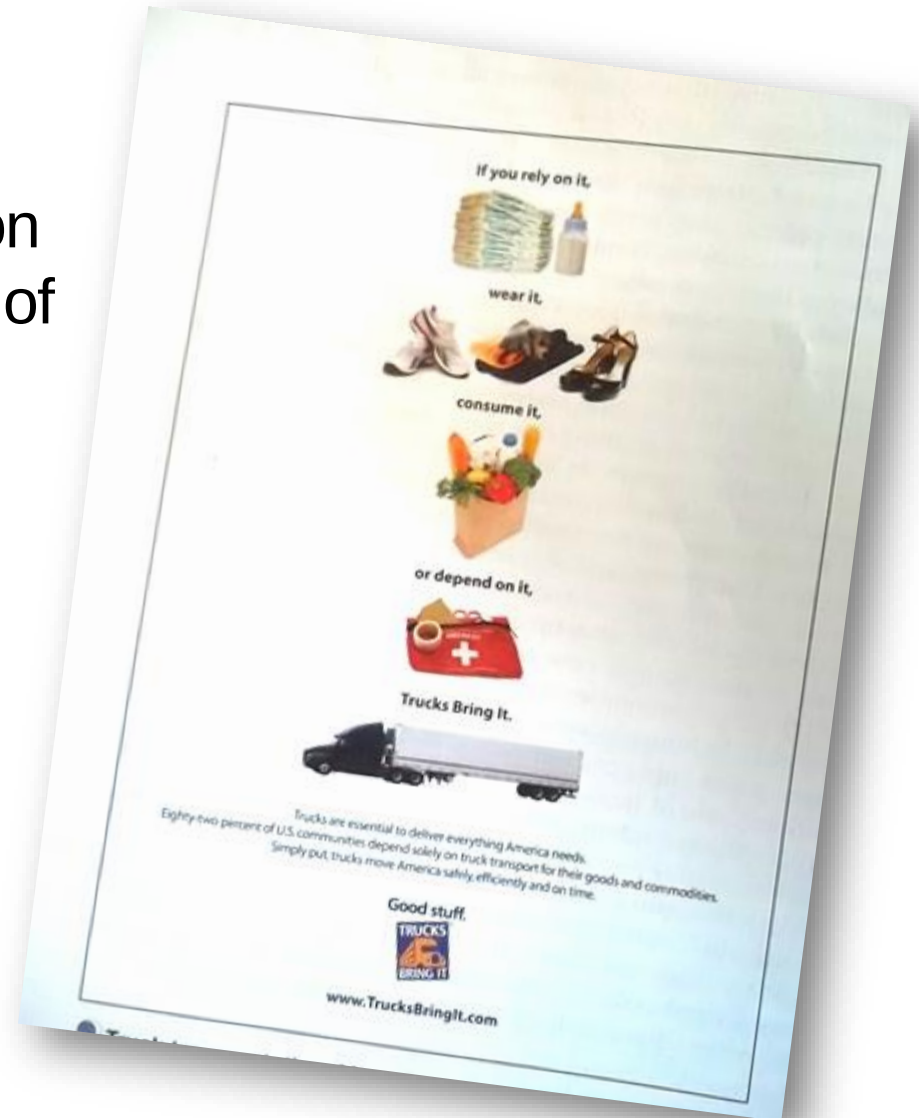


Marketing Logistics and Supply Chain Management

3. Transportation

- The choice of transportation carriers affects the pricing of products, delivery performance, and the condition of goods when they arrive.

Truck transportation: More than 80 percent of American communities depend solely on the trucking industry for the delivery of their goods. “Good stuff. Trucks bring it.”



Marketing Logistics and Supply Chain Management

❖ **Intermodal transportation:** Combining two or more modes of transportation.

- 12 percent of total cargo ton-miles in US are moved via multiple modes
 - 1) Piggyback – use of air and trucks
 - 2) Fishyback – water and trucks
 - 3) Trainship – water and rail
 - 4) Airtruck – air and truck
- Advantages for example Piggyback cheaper than truck alone, but also provides flexibility and convenience.

Marketing Logistics and Supply Chain Management

Logistics Information Management

- ❖ **Electronic data interchange (EDI):** the digital exchange of data between organizations which primarily is transmitted via the internet. Example Walmart require EDI links to more than 100,000 suppliers
- Vendor-managed inventory (VMI) systems or continuous inventory replenishment systems.
 - Customers share real time data on sales and current inventory levels with the supplier. Example Walmart, Home Depot, P&G

Marketing Logistics and Supply Chain Management

- ❖ **Integrated Logistics Management:** The logistics concept that emphasizes teamwork-both inside the company and among all the marketing channel organizations- to maximize the performance of the entire distribution system.
- Cross-Functional Teamwork Inside the Company
- Building Logistics Partnerships



Marketing Logistics and Supply Chain Management

The image shows a screenshot of the Logility Voyager Solutions website. At the top, there is a navigation bar with a logo on the left and links for SOLUTIONS, INDUSTRIES, NEWS & EVENTS, LIBRARY, COMPANY, SUPPORT, Contact, and Login. Below the navigation bar is a large banner with a blue background. On the left side of the banner, there is a circular diagram with eight circles arranged in a ring around a central point. The circles are labeled: Performance Management, Value Chain Collaboration, Supply Chain Planning, Inventory Optimization, Transportation and Logistics Management, Demand Chain Planning, and two unlabeled circles. The right side of the banner contains the heading "Powering the Collaborative Supply Chain" followed by a paragraph about the importance of an optimized supply chain. Below this, there are three bullet points: "The Collaboration to OUTTHINK", "The Visibility to OUTPLAN", and "The Velocity to OUTDO". A paragraph follows, stating that Logility customers drive higher margins by powering best-in-class improvements in supply chain visibility, demand, inventory and replenishment management, sales and operations planning (S&OP), supply and inventory optimization, manufacturing planning and scheduling, transportation planning and management and warehouse management. At the bottom right, there is a "Learn More" button.

Powering the Collaborative Supply Chain

If you aim to be a top competitor, an optimized supply chain is more than a choice. It's a mandate. Logility Voyager Solutions™ can help you leave the competition behind. Our supply chain software provides:

- The Collaboration to **OUTTHINK**
- The Visibility to **OUTPLAN**
- The Velocity to **OUTDO**

Logility customers drive higher margins by powering best-in-class improvements in supply chain visibility, demand, inventory and replenishment management, sales and operations planning (S&OP), supply and inventory optimization, manufacturing planning and scheduling, transportation planning and management and warehouse management.

As a result, you can more profitably satisfy customer demand – and stay in the winner's circle – by getting the *right* products at the *right* cost to the *right* place at the *right* time.

[Learn More](#)

Integrated logistics management: Many companies now employ sophisticated, system-wide supply chain management software, available from companies such as Logility.

Marketing Logistics and Supply Chain Management

- ❖ Third-Party Logistics (3PL) provider: An independent logistics provider that performs any or all the functions required to get a client's product to market.
- UPS Logistics, FedEx Logistics, DHL Logistics

