Marketing Management II
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Lecture No. W6-L1
Introduction to Distribution

Hello welcome to the sixth week of our course on marketing management part II. The advanced concepts of marketing and this is our opening session of the sixth week as you would recall that while in the first part. That is mm1 which preceded this course we had introduced to you, the basic concepts, techniques and tools related to marketing in this part mmtwo we are discussing the various elements of what we called the marketing mix.

What it means by mix is the mix of different strategic elements that guide us to deploy our sales and marketing resources properly in consonance with the overall strategic objectives of the organization in the beginning. During the first two weeks of this course this mm2.

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We discussed different aspects relating to the first element of marketing mix which we called the product a variant of this that means services. We will discuss towards the end of the course to look at the different distinctive alternatives of services with respect to products. After that, we related it to the whole discussion on brands. During the third week in the fourth week which is kind of an advanced concept basket related to products.

So, products and brands we discussed in the first month first four weeks in the fifth week. You have already gone through the discussion on pricing. The second element of the marketing mix or what we call the second P we call them the four P's of marketing primarily. Because product, price, place, and promotion these are the four core aspects for deployment of marketing strategy. So, this week we start with the concepts of third P place means a place where the customer.

The consumer can access your products or services so academically or in marketing terms we also called this aspect of discussion on place as discussion on marketing channels or distribution or channels of distribution where we combine the two so channels of distribution from fundamentally means.

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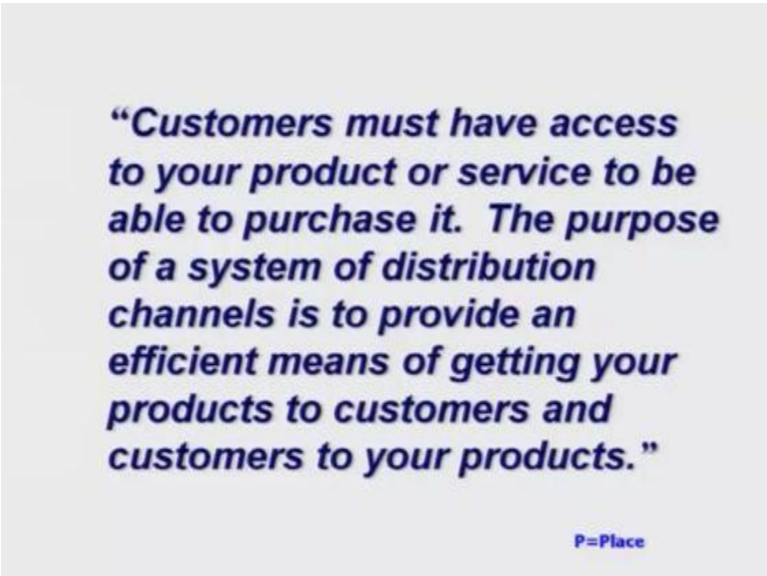

The customers must have acts to your product or service to be able to purchase it and therefore you have to create a system of distribution availability of your products and services as multiple touch points. So that efficiently easily customers can access your products or services so as you see one key aspect of distribution channel is to enhance customer's ease of access or in other words enhance the availability of your products and services across geographies across time slots and so on.

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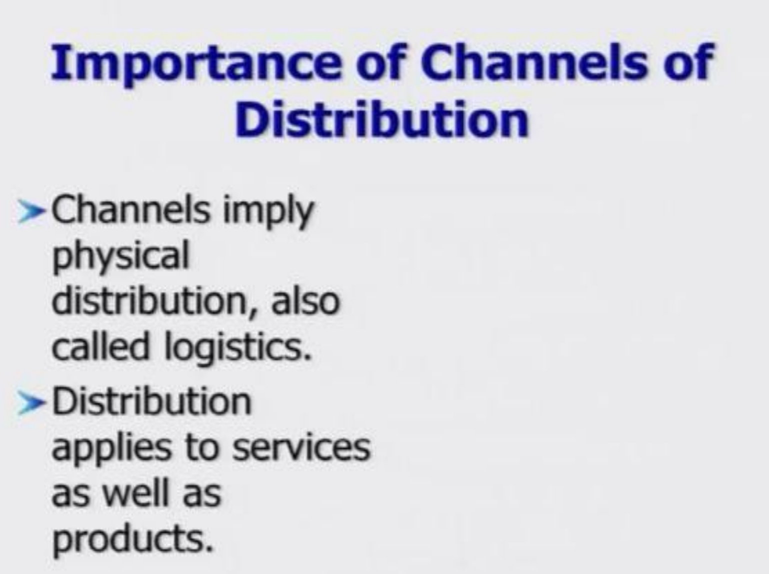

So, importance of channels of distribution are several fundamentally as we will see and we will go in a little depth of on this issue to that channels distribution points a network of distribution are all designed ultimately to reduce the transaction cost. Transaction costs for the producer or for the marketer as well as the transaction costs of access for the consumer this cost can be direct monetary costs also this cost can have an elements like time convenience etc.,

So, this physical aspect of the distribution availability at different geographical points will apply to products as well as to services. For examples id McDonalds or subway or KFC or dominos, they want to serve a very large market they have to be available easily to a large number of customers which means they have to have number of outlets where they are good service combinations food and beverage services will be available.

So, this physical distribution sometimes is also called logistics and ahh the logistics as you would therefore understand can cannot the supply side of the business. So, there that is what we call supply chain management or incoming logistics management and it is equally important to look at the delivery side of the chain of the value chain and this delivery site is the distribution chain and that is the topic for our discussion.

We are focusing therefore on output site logistics and not exactly the input side but of course later on we will see that for in today's operations. We need to think of this whole value chain as a total system. So that there is lot of co relations necessary between the output delivery chain with the input supply chain but let us look at the whole issue of what we mean by value chain or value-added chain

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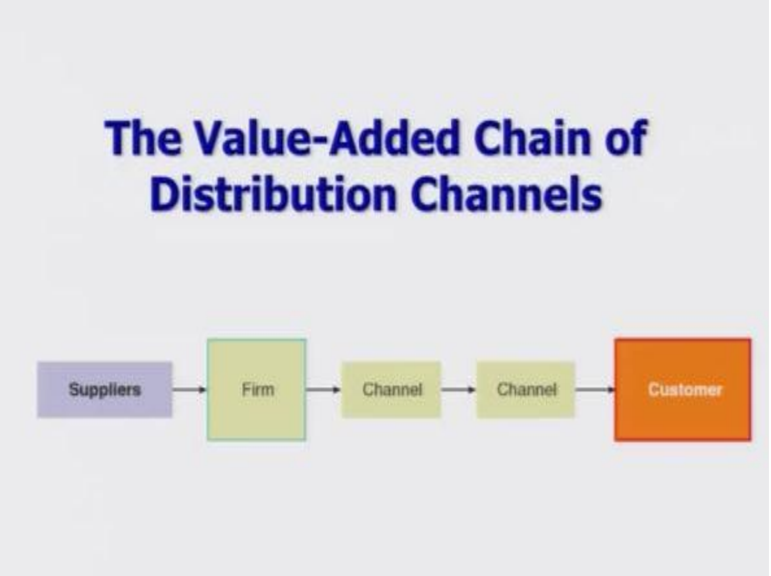

So, as you see there are suppliers on the supply side whose supply components sub systems consumables on other required elements for the manufacturing operation to the firm and the firm then after the operations after internal value addition and conversion of the input material sub systems into the final product or product and service combination. Then reach ultimately the customer through channels and as the diagram shows on your screen the channels can have here.

We told showing two stages but there can be multiple stages as we you will see now this channel and the reach that means what sort of customers how many customers you can reach out to is a very important part of the valuation of the whole organization there is a set of facts,

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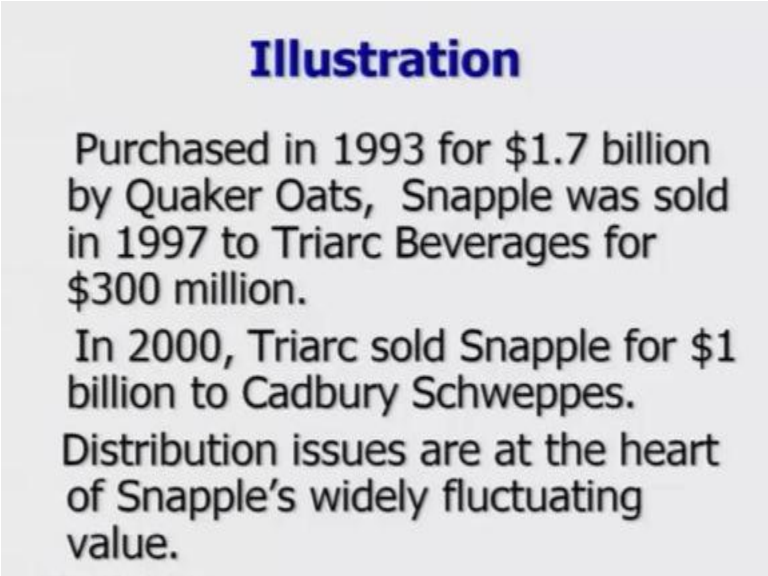

That in 1993 Quaker oats which is a breakfast cereal a very old established respected brand was purchased for 1.7 billion dollars by for this product snapple. So snapple which is a breakfast sort of juice which is ah a derivate of apple juice so sap snapple was purchased by Quaker oats because it goes with their other breakfast cereal items for 1.7 billion snapple was so sold in 1997 that means just 4 years later to a different company called triac beverages for hundred million.

Look at the drop from 1.7 billion to three hundred million 1993 to 1997. So much of value erosion but very interestingly in two thousand that means that three years later triac sold snapple for one billion dollars to Cadbury Schweppes. You see when three hundred million rise to again hundred billion a one billion and if you go through the history of this case or this change of hands or for the brand snapple product basket snapple you will find that the distribution played a crucial part in this increase in the brand value from 300 million to 1 billion.

Almost more than three times so the valuation of companies like ITC or HUL in India. And at the top they re one of the most they are definitely always come among the top ten most valuable companies in india and the key reason for their high valuation is the distribution reach ITC products HUL products are available in hundreds of thousands of small villages across india.

They reach out to the deep mountains to the small coastal villages to small hamlets inside forest lands tremendous network to reach out to the customer to make their products available from large super stores to small roadsides shops this network. This delivery chain is therefore definitely a key element for value creation.

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As I was discussing about HUL or PNG or Dominos or McDonalds or ITC you would realize that these channel partners marketing channel partners are not always called distributors. They are called by various other names like middlemen merchant, middlemen agents, wholesalers, brokers, manufactures agents, distributors, facilitating agents and so on. By various names these names cannot different types function performed by the intermediary at different levels for different value bundles and these channel partners often form a multi-tier network.

Something that looks like this so if you see here it is the manufacturer in some cases the manufacturer will directly go to the retailer and reach the household customers so large retailers likes a big bazaar or reliance fresh or so many others they are large format outlets and they reach a large number of customers so anyway they are large buyers and manufactures therefore they deal with them directly.

so, this is one type of channel this is a large retailer or a supermarket chain usually they are national chains or at least a dominant regional chain so like they can be Spencer's which is more concentrated in certain regions. Where they are very strong or they can be like big bazaar with a much wider network or they can be like a shopper stop with exclusives stores at various places and they all deal with the manufacturers.

So, products which are more convenience products or staple products like soaps or detergents or house cleaning products personal care products groceries very often travel through this chain and reach the end customer. But many of the same products before the appearance of these large format retailers in India really operated through a route like this that means the manufacturers. They sent those goods or those goods were purchased by wholesalers sometimes called c and f carry forward agents and they supplied to the retailers.

So, a petticoat wholesaler in Kanpur, will be supporting retailers for almost the entire you p eastern of you p and that is why I can put is a very large warehousing and wholesaling market for consumer products staple products these retailers can be even at multiple level. There can be a large retailer who will be supplying to a small pawn shops or small mom and pop stores local stores kirana as we call them there can be another format which is actually the format of agent or broker.

This often happens in industrial products this agent or brokers they often actually create the demand or seek out the demand or negotiate most elements of the purchase and then it is fulfilled through a retailer this is more like a distributor retailers. So, this particular stage breakup can have actually three stages or can have two stages three stage will be something like this that means there will be agent or brokers and there will be people who will be sorry there will be agent or brokers there will be wholesalers and then there will be retailers.

This agent or in the last root if you see these agents or brokers they can actually often ah that role may be played by employees of the organization or employees of the organization working in tandem with ah agents and brokers. So, their role is mainly to seek out create the demand and then the demand is fulfilled by this chain of wholesalers or retailers.

So, as you see here there can be a single stage there can be a two stage or three stage in this consumer product distribution against that for industrial products or what we call btwob market business to business market. There will be industrial distributors but for something like say light fittings or domestic electrical products.

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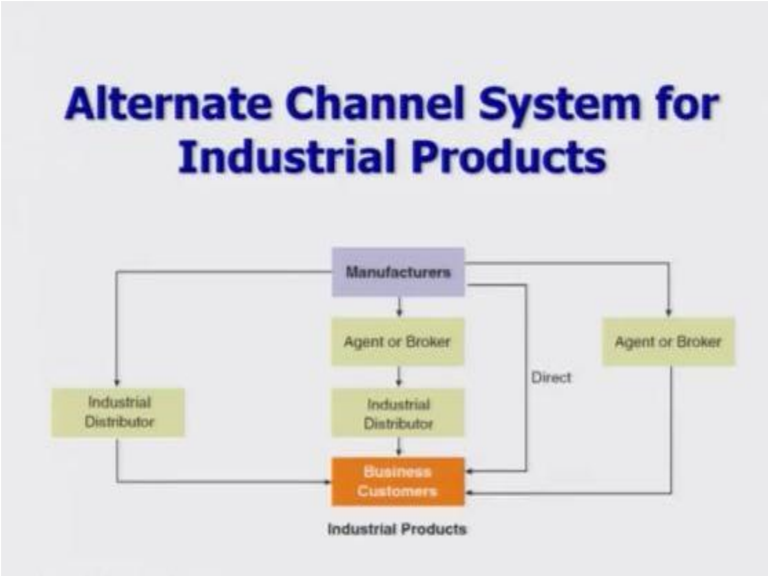

We can again see this kind of 3 stage so if there is a large requirement at say IIT Kanpur for electrical products for a new building there may be a an agent or a broker or an intermediary who will do the bidding tendering and all those sales ah sales functions and then once the decision is made that all the electrical products from Larsen and Toubro for example or from siemens or from havells.

Then the distributors of havells or distributors of Larsen and toubro will fulfill the demand and supply it to IIT, Kanpur. In this case is an institutional or business customer sometimes of course some in some products it can also be sold through a broker directly to the industrial or business consumer and that is a case for certain high value items and ah the money may flow actually directly from the buyer to the manufacturer with the commission to the agent or broker. So, which means, in this case actually the agents or brokers do not purchase any item.

They influence the purchase process but the industrial distributors they actually purchase the items from the manufacturers. So, the money flows from the customer to the distributor to the manufacturer obviously at each stage the distributor will have a cut, they will have a commission. So, if this is hundred, if the business customer pays hundred the distributor pass on maybe eighty to the manufacturer and of the twenty may be ten will be shared by the agent of the broker.

so that is how kind of what we call that is why it is a value distribution across the chain ah at different stages we have different ah value addition or you can say value extraction whichever way you look at it will discuss some further aspects about this distribution ah in our tomorrow session. Thank you!