Marketing Management - II
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Lecture No. W6-L4
Integrated Marketing Channel

Hello welcome to the fourth session of our sixth week of this course marketing management part II and we are discussing about marketing channels, distribution channels, network of availability of products, goods and services. Today's session will be a recap of we have discussed during the last three sessions as well us some deeper understanding of some of the issues by using models.

The first 3 lectures I have actually used material from this particular book. This is called sales and distribution management by Panda and Sagadev. Its oxford publication. But in this summarization this particular lecture I am going to take the help of the famous book on marketing management by Kotler and Keller. This is the new 15th edition and I am going to talk about you will find in chapter number 12 and chapter number 13.

So, the first issue here is that marketing channels are often synonymous with the concept of value network.

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So, value network or marketing channel therefore it represent network of independent organizations participating in a process of making a product or service available for use or consumption. This is kind of the academic definition of a channel and the value gets transmitted right from the component or subsystem suppliers to the manufacturer, to the distributors, to the retailer, to the ultimate consumer and value flows along this network often in multi-tier interactive channels.

As we have discussed before and at each stage therefore there is also a game sharing by each channel partner.

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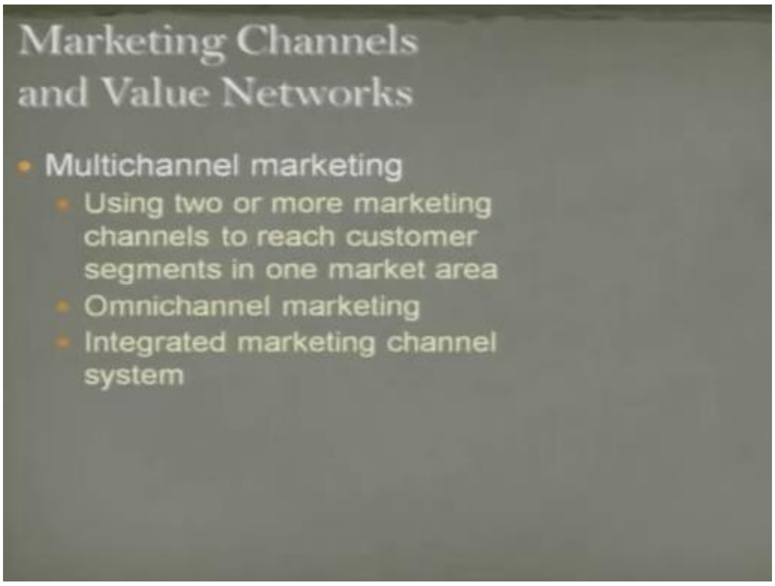

So multi-channel marketing therefore means using two or more marketing channels to reach the customer segment in one market area and a new concept which we have discussed in the last session about this interviewing of E-Channels electronic channels information and communication technology based E- Marketing, E-Commerce channels and telephone marketing channels and physical channels.

This combination is the concept of omni channel that means now when we think about distribution, we have to think about all these possibilities and often we have to use multiple possibilities together with shared responsibilities. And in the last session we have discussed how different channel partners are to be brought on the same page with its clear understanding of shared responsibilities and how a marketing functions are distributed among these channel partners.

So, the digital channel revolution is actually has now created in some ways lot of advantages in distribution. It was also created some new challenges.

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Because for example, I discussed in the last during the last three sessions that the inter relationships between physical stores and electronic stores are now becoming not separate but quite interactive people may choose, make a decision about a product in comparison in the competitive products on the web but they physically go and check out their ultimate couple of shortlisted solutions and then may be make the final a buying decisions in the store.

So, this is things like store ambiance or store layout or store convenience. These sort of things are now also to be thought in conjunction with the website design and the interactivity of the website and so on. So, because somebody may place an order on line and pick it up from the store or on the other way it can be actually decide. Comparisons can be made on the web and then somebody can go and make the purchase decisions at the store but the delivery may be done by the third-party logistics partner.

So, there are these interesting interviewing and also these days very important. Because when you buy something from a physical store usually you will go and return if you are not satisfied the item to the same store. But now, if something has been decided you have done the comparative comparison shopping on the web. Then you have gone to a store actually you have made the purchase decisions.

Now the delivery has been made to you by the third-party logistics in a courier company and then you want to return the product. Because you are not satisfied then this entire what we call the return chain is another interesting part of the whole channel design that has now become more and more important because of this coordinated but separate entities operating in the value chain.

So this return can sometime be made at a nearby store it can be picked up by a courier company which is more often done and this whole return chain is to be thought of in conjunction with the supply chain okay I think this diagram that I am going to use.

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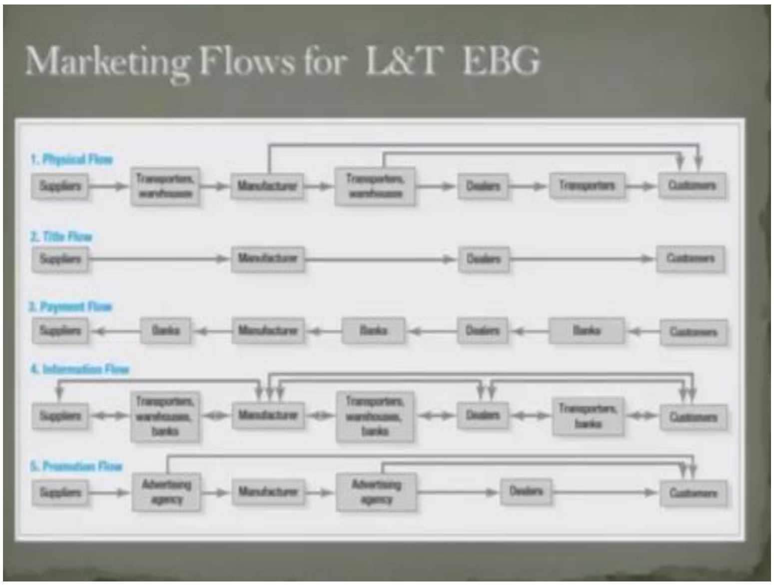

I have taken an actual example from Larsen and Toubro a major Indian company who have they have a very large electrical business group and for certain products industrial switch gear products controls gear products they are India's leads supplier and if you see therefore in this diagram we have looked at a 5 different flows the first one is the physical flow so in the physical flow as you see here we have the physical flow of the material of the devices made by the Larsen and Toubro.

Electronic electrical business group so from the supplier to the transporter or ware house to the manufacturer this is the supply chain this is where Larsen and Toubro is located this block. And then thus finished products based on these inputs. So, this is the supply chain and then it goes to the delivery chain through transporters warehouses to dealers to transporters again and to customers.

So, this is the physical flow say from a component or subsystem level to the final delivery of the product of the system so this side is a supply chain this side is a delivery chain and this is to be thought of in conjunction. Because sometimes as I discussed just now, you may have also think of the return chain because you may have to return some defective material and so on. Now if you ignore the return at this stage chain in physical is goes in conjunction with the title flow.

So in title flow what happen is the title of the goods or the input material that is from supplier. It will move to manufacturer and from manufacturer to dealer, from dealer to customer. So in a way a dealer represents actually a very large customer in some sense and that's why just like we have customer relationship management is a big issue.

We will discuss some part of it in some later sessions but this partner relationship management have also become very important because partners instead of being treated a subsidiaries or somebody who is serving your cause at to be now treated us who is helping your cause. So they are like large customers in many ways . So even in b2c this loop manufactures to dealer often can be considered as a b2b loop so payment flow.

Therefore happens from the manufacturer through the from the customer to the banks to the dealers to the again through banks to the manufacturer. And then on the other side through the bank it goes to suppliers information flow about market conditions, a market research information as well as a possibilities material availability and all these things is another important flow and as you know these days using ERP many large customers are actually tied to the majors suppliers so you should look at the information flow also.

And if you see so the information flow they are all bi-directional arrows. So therefore a information flow between the customers and the transporter, information flow between the customer and the bank and are the transporter and the bank and the dealer again from the manufacturer to the transporter, warehouses, banks and the dealers everywhere we are using bi-directional arrows.

So, the information systems are very interactive and they are actually today the importance of information across the value chain is become so important that organizations like very large organizations, retail organizations. They know that even like Wal-Mart is suppose their information system knows every soap that is sold at every outlet across the whole countries. So there are thousands of outlets even if one soap is sold from location number 935 their information system will know.

So they can actually track their inventory movement, they can track their demand pattern, they can track their next week schedule, next three days schedule for delivery of stuff to their dealers they know it almost to the minute because of this interactive totally connected warehouses. So often what happens is that if a customer has picked up something from the dealer immediately the information can reach right to the component supplier.

Because they often work on the basis of replenishment management principle that means if one soap is sold then one soap is to be delivered to the inventory of that particular dealer. Which means the corresponding that one soap should be part of that manufacturer schedule and then therefore corresponding input material should come am slightly exaggerating it with respect to a soap.

But if you think in terms of a automobile or if you think in terms of a refrigerator or you think in terms of a television then this will become very clear that how this real time information flow today is highly increasing the economic efficiency of a organizations by creating an integrated value chain of these delivery chain and supply chain partner. Then comes promotion flow again in promotion flow.

Also, there is a interactive role between advertising agency and the customer and the dealer and the manufacturer again their part of an eco-system. So next week when we discussed that about integrated marketing communication we have to think in consonance with this concept of integrated marketing channel. So, the role of marketing channel therefore are different there are zero level channels, one level, two level, three level channel and other thing we have discussed about this return or reverse flow channel and similarly there can be a service sector channel.

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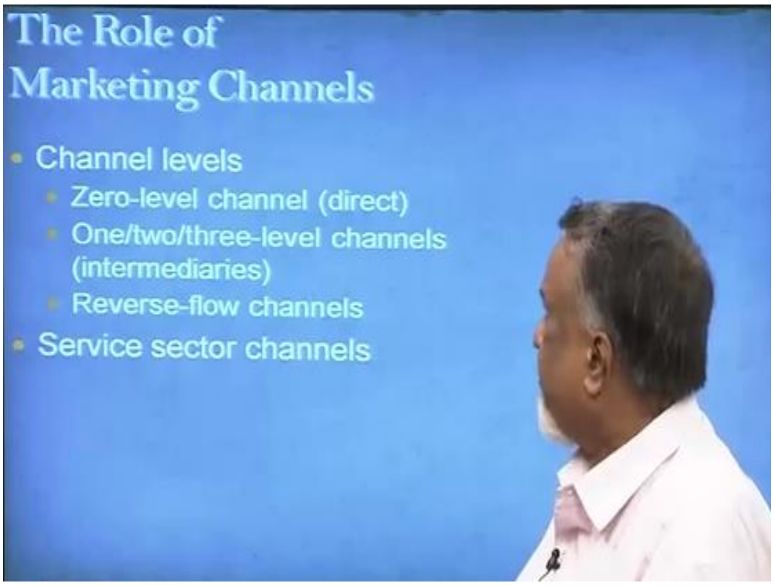

So let's look at this is a consumer marketing channel and this is the industrial marketing channel. We have discussed this same diagram earlier am doing just a recapitalization that there can be a zero level which is direct from manufacturer to consumer there can be one level that is from manufacturer to retailer to the consumer. There can be 2 level manufacturer to wholesaler to retailer to consumer there can be three level manufacturer to wholesaler to jobber to retailer to consumer.

In India companies like HUL or P&G or ITC, they usually have this kind of a two level. There may be sometimes wholesalers and between the wholesaler and the small retailer and there may be a big retailer. So there can be two level or three level like this and which is quite often deployed across the country and sometimes before the wholesalers there may be what we call C&F agents which are third party people who are just doing the warehousing and logistics management.

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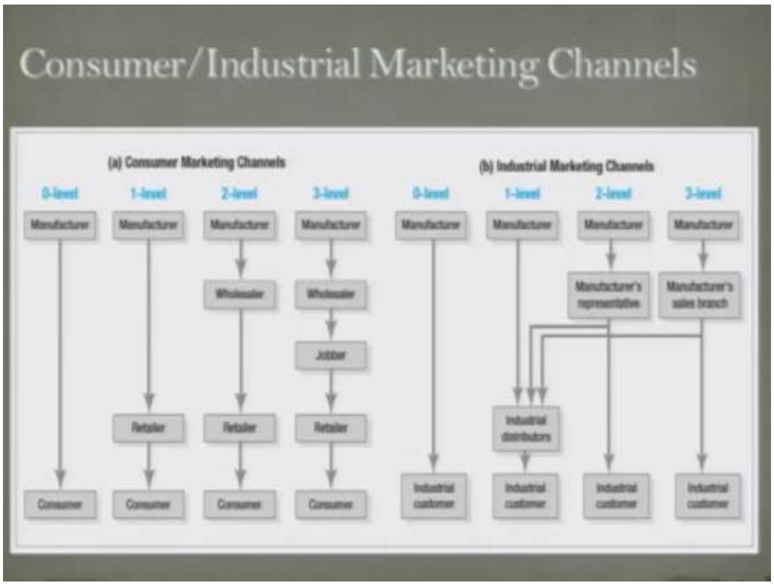

So manufacturer just produces and sends it and the C&F agents then handle its dispatch to the various location to the various wholesalers and so on. So this is the multi-level in case of industrial marketing channel it is almost similar there are high value items through detect sales channels goes from manufactures to industrial customer. But say like the L&T electrical business group that we discussed many of their product actually goes follows this the manufacturer to industrial distributor to industrial customers.

Sometimes I discuss this case like for example, if there is a large electrical system tender, so there may be a manufacturers, representative that can be their own sales force or it can be some kind of a sales consultant or sales intermediary and they may be actually taking some value added responsibility like putting the electrical switch, gear and the control gear in a panel and then supplying it to the industrial customer.

So that becomes the kind of a two level and there are of course three level also manufacturer to manufacturer sales branch. Many sales branch in this sort of company like Havel or L&T or Snider they have also local sales and stock structures. So, they are they may be directly, they may be the stock transfer from the manufacturer to the sales and stocking operation regional operation and from there it is sold to the various customers.

So industrial distributors are almost always there for products like which are like just like we are fast moving consumer goods there can be fast moving electrical goods a new coinage these days and so industrial products are now also often using consumer marketing techniques for products like say domestic light fittings or a large buildings electrical or auto machine products.

And they are actually same consideration which applying marketing for image creation or confidence creation or trust creation in the customers mind in case of a consumer products likes a detergent soap. The same kind of factors are applicable also to industrial products. So, all products now are buying decisions are partly utilitarian or what we call logic based or but partly it is also emotional based.

An intrusion based and so on so the channel strategies as well as the promotion strategies to keep this in mind that there is in increasing competitions and as a result there is a continuous combination of a rational as well as affective reasoning in consumers mind. When they make their buying decisions and both channels as well as promotion strategies must take that into an account channel design decisions.

We have already discussed they are actually based on desired lot size and waiting and delivery time for example if it is some stable product like Rice or Atta then you know you cannot wait for two days for delivery. So, your distribution channel should such the customer needs it.

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He or she should be able to pick it up with two minutes and walking few hundred meters. They neither can wait for two days nor they will be prepared to travel 5 kilometers on the other hand for shopping products or specialty products as well as the customer may actual can wait for say for example, for a refrigerator or for a television but even their the customer will be interested to deal with a nearby dealer.

So that if there is any problem the customer would like to you know would like the geographical proximity. So special convenience, delivery convenience, time convenience all these are important channel design decisions. And sometime when somebody buys the refrigerator the customer may also be interested to buy the voltage stabilizer or the customer.

We wanted to buy some containers needed for a microwave oven or from fridge to oven sort of facility so they will usually like to deal with the entity who will have the refrigerator as well as all these accessories available and of course service back up. So, these are the channel design decision criteria the other decisions on the overall sense of the organization.

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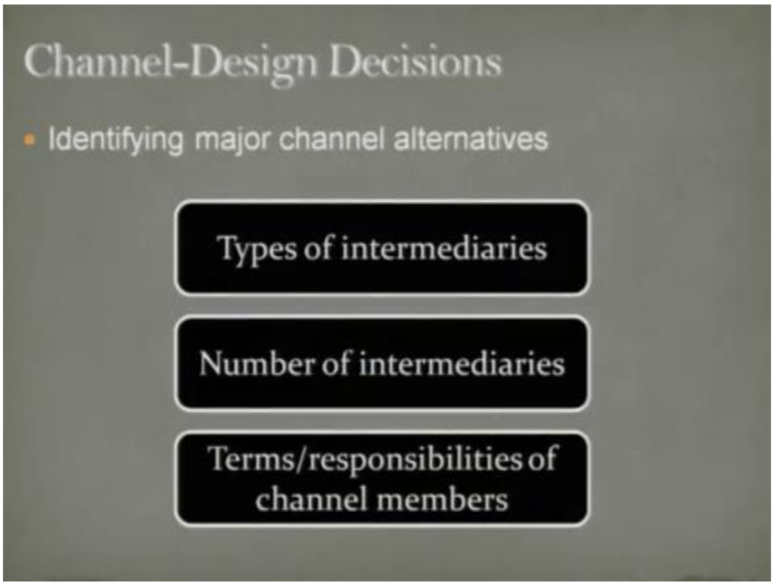

We have to make are types of intermediaries, number of intermediaries and terms and responsibilities for all the intermediaries remember the in the last discussion yesterday's discussion. We showed that chart there are these different intermediaries and different marketing responsibilities. So, this XY matrix the whole chart is to be filled up so that all parties are aware in the marketing function.

What role each entity is playing and how they are related to others now few other definitions that we can have exclusive distribution which means that for example Larsen and Toubro if other electrical business.

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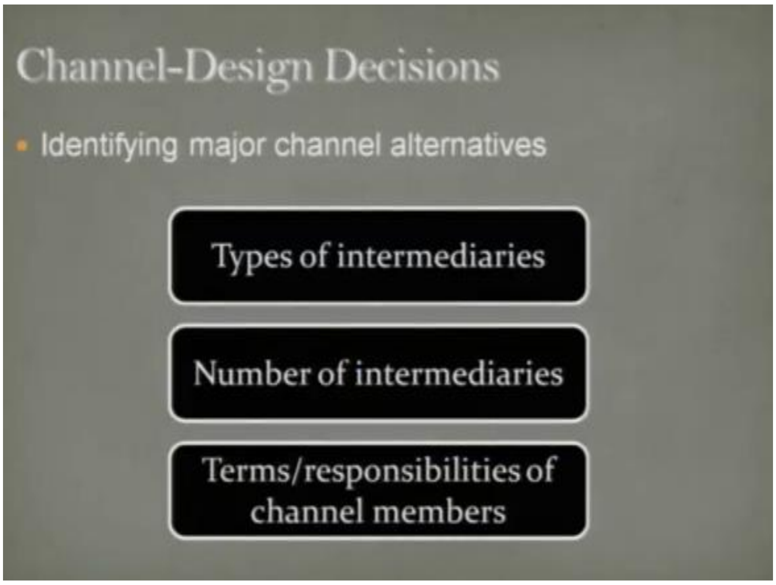

They use this strategy that they have distributed who will only carry usually L&T products and not any other competitive products in that particular range the distributor may carry related products like L&T is not in the business of ups. So, they will not carry competitive products of Snider. Because they are exclusive distributors of Larsen and Toubro but they have other products which are not L&T competing.

With L&T and that completes their basket then there can be selective distribution where you may decide not to cover the whole market either geographically or income segment wise. And so you may be located in certain specific high and malls because you don't your product is not actually for mass market so that's kind of a selective distribution. The selective distribution can be done through distributors as well as through your own showrooms or your own exclusive stores.

But in some products goods or services like star bugs is supposed to cover every entry and exit of a large building. So, every entrance you can take or every exit you will find a star bugs outlet that is kind of intensive distribution is also followed for stable products convenience. Products like food and beverage products or personal care products because you want to be present on as many stores shelves as possible.

Because you exact these are mass consumption items. So that is where we use intensive distribution we have discussed this point that terms and responsibility of channel members like pricing, policy conditions of sale distributors territorial rights and mutual services and responsibilities.

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This distributor territorial rights this is actually even the sound simple and distributors are bound by agreements. But obviously for business they will often compete with other distributors in the overlap areas. We will discussed this in a short while before that im going to conclude this structuring issue channel design decision by using this very good diagram and that is actually fully draw on one side value addition of sale.

On the y axis from low to high and cost per transaction that means you know whether it is a 20rupees sale or 200 rupees sale or 20000 rupees sale so that is again from low to high. So if it cost per transaction is low for example it is a packet of biscuit or a bottle of hair oil then and value addition sale is very low. Then I think you will see more and more such products such grocery products or daily used products will move to internet based channeling of course.

In the country like India where the internet penetration is still not very significant. We still see a big role for local retail stores or Kerana stores as we call them and so this is the channel which is catering to low cost per transaction and low value added. But this other part where actually we have high cost per transaction say for example a refrigerator or other consumer durables like a microwave oven or a CNC machine or a large electrical control panel.

We will see there the cost per transaction is high value added by the channel partners is high. So, we will see usually distributors value added partners or direct sales force people working so I think the whole approach to the market can be very nicely understood by looking at this particular diagram.

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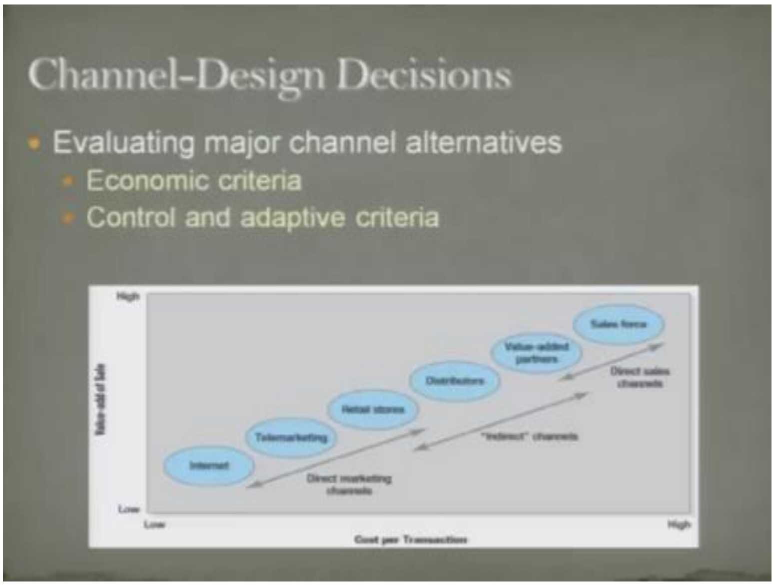

By drawing value added low to high cost per transaction and that will show us this particular map usually when we have this multi-tier from the manufacturer to the wholesalers or CNF agent to the wholesaler to the retailer to the customer. So that is like a vertical marketing system that vertical marketing systems can be often actually even the channels owned by the main manufacturer.

So, there are companies who actually own their own distribution channels or it can be contractual vertical marketing systems. So, the distributors may be separate entities.

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Both are happening for example, we discussed about the Maruti Nexa so Maruti has created this owned channels for marketing high end cars. So, these are not third-party entities usually these are very often owned by a Maruti. The showrooms come distribution points and so that say like a corporate vertical marketing system. So, E-commerce we all know that the use of website to transact or facilitate the sale of product and services but interestingly there are now more and more not pure click but brick and click or as we say click and motor.

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Earlier there were only brick and motor stores and there were click and color stores. But now it you will see a mix more and more. So, we have this what we call brick and click company’s mobile commerce. Similar things but using smart phones and lastly the channels exists with multiple entities and we discussed it's a complex network. So, there will be conflicts, there will be horizontal conflicts and there will be vertical conflicts.

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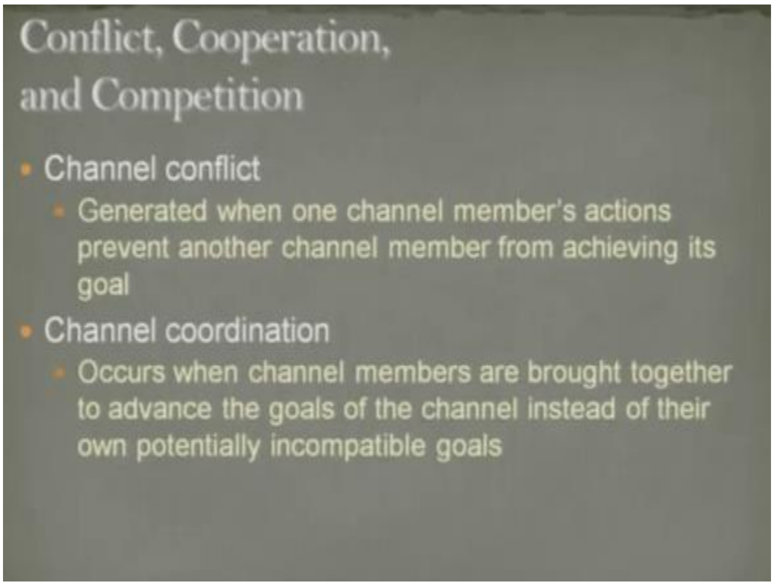

So the horizontal conflicts means the conflicts with respect to territory between two distributors and vertical means. There can be a conflict between the distributor and the retailer these will have to be managed by the manufacturer. This is very important because when number of business entities are working with each other there will be conflict of interest and there will be therefore conflict and it cannot be avoided and cannot be eliminated but it has to be managed.

This horizontal channel conflict, vertical channel conflict and multi-channel conflict. So, a channel conflicts happened due to in compatibility of goals or the same customer in an overlapping geography.

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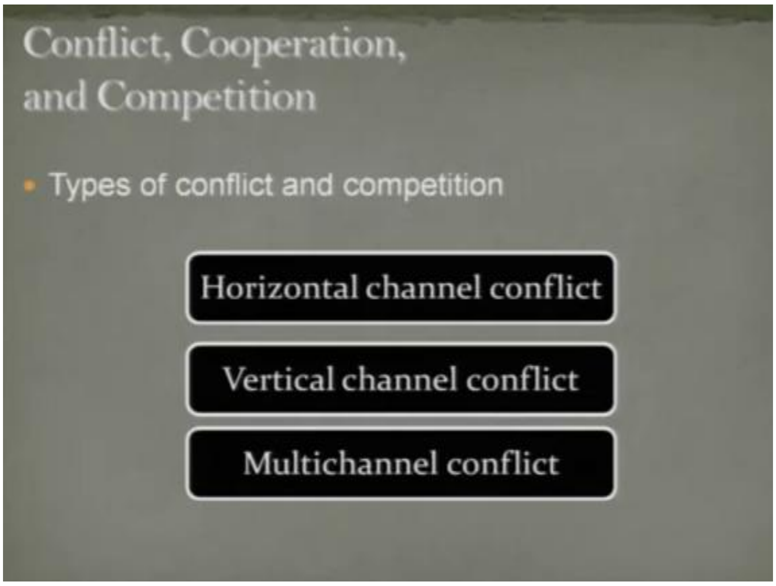

May be offering an interesting business opportunity so two distributors may say this is my case and other distributors may say no this customer is in my territory. Often it happens there is a large factory being set up so a distributor may be serving that particular area when the factory is coming up but they may be buying machines which are coming from. So, for example the factory is being setup at Noida in up but the machines are coming from suppliers in Bangalore or in Bombay.

So, the distributors who are supporting the machine suppliers may say that this is my case. So, I should get the distributor commission. Because I am supplying the product to the machine but the factory located in up the distributor serving the Noida area may say I am influencing the standardization of products in favor of Larsen and Toubro therefore, commissions should be mine so this sort of conflicts may arise due to differences in perception.

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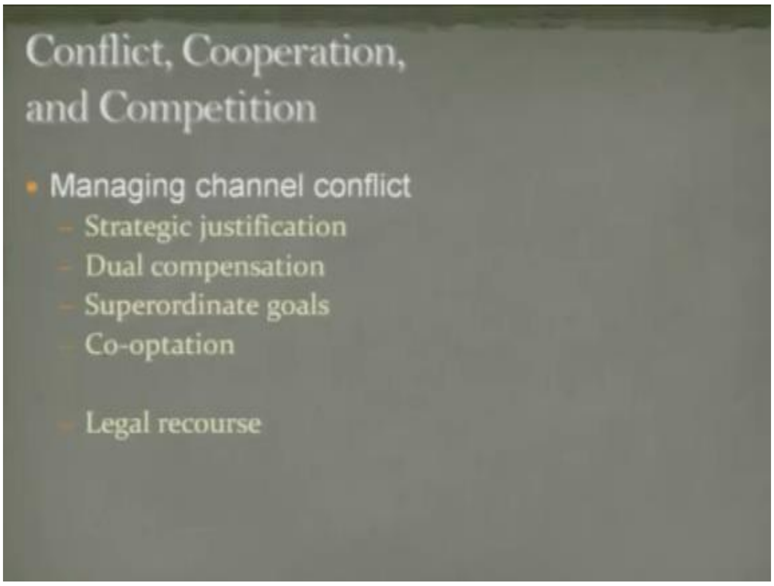

And ultimately there are both parties are they have this case so we may actually create a dual compensation such cases and or in some cases there can be a strategic justification whose influence is more important on that basis. And sometimes companies allow the co-existence of a managed conflict situation so what we called co-operation means you know competitive co-operation.

So, they may compete as well as cooperate and such situation ultimately if it is nothing can be solved go to legal issues. So that sort of brings us to the conclusion of this discussion on marketing channel structuring of marketing channels the roles of different types of channels partners how they are to be coordinated and mapped and so on. We will discuss now certain specific types of channels issues mainly this whole area of retailing so retail management is a vibrant interesting area of days marketing.

Because that can be physical retails there can be E-retails and retailing is now becoming quit challenging because that is whether the battle is fought. And we will discuss retail management as a part of our overall discussion this week on channel management from tomorrow. Thank you!