Introduction to Marketing Essentials
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Lecture – 27
Managing Marketing Channels and Supply Chains - I

Welcome to Introduction to Marketing Essentials, now we will talk about module 27 this module 27 and 28 they will be covering Managing Marketing Channels and Supply Chains. So, that is the 4th topic under this Part 4 that is satisfying marketing opportunities. So, let us see what are the things we will be talking about in this module 27.

So, in this module we will explain what is meant by a marketing channel of distribution and why intermediaries are needed. So, you see that we are talking about another P that is the place.

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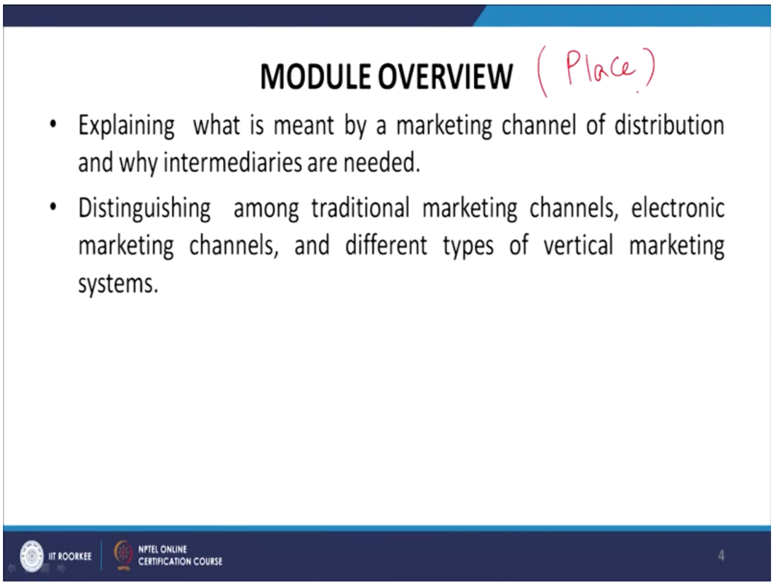

Then we will distinguish among traditional marketing channels, electronic marketing channels and different types of vertical marketing systems.

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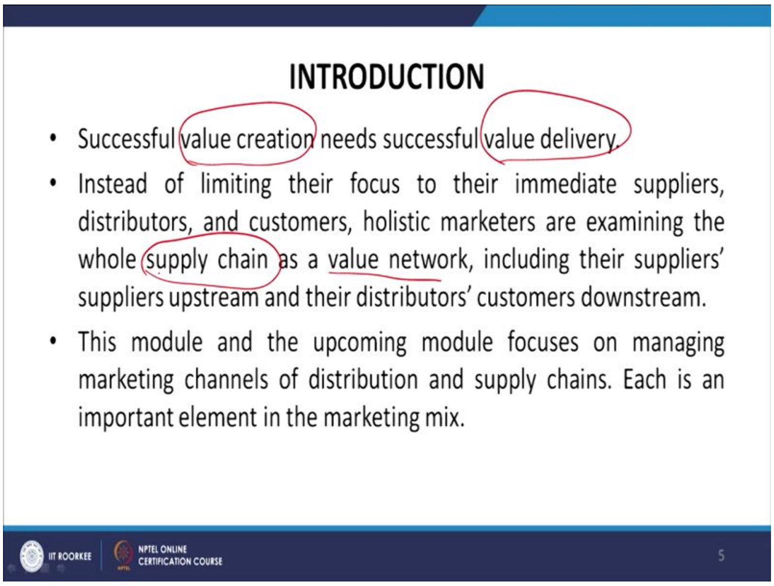

To start this successful value creation needs successful value delivery. So, creation and delivery they go hand in hand. Instead of limiting their focus to their immediate suppliers, distributors and customers' holistic marketers are examining the whole supply chain as a value network. So, this supply chain is being treated as a value network and this value network is used for value creation and value delivery.

So, this value network includes their suppliers' suppliers upstream and distributors' customers downstream. So, on the left hand side it includes everyone suppliers, manufacturers, suppliers and suppliers' suppliers and on the right hand side it has the distributors and the retailers and the customers etcetera.

In this module and the upcoming module, we will focus on managing marketing channels or distribution and supply chains. Each is an important element in the marketing mix.

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Now, let us look at the nature and importance of marketing channels. So, what is marketing channel of distribution? You see the results of distribution every day, everywhere. You may have purchased Lay's potato chips at an Easy day convenience store, a book online through Amazon dot in and Levi's jeans at a Kohl's department store. Each of these items was bought by you by a marketing channel of distribution or simply a marketing channel.

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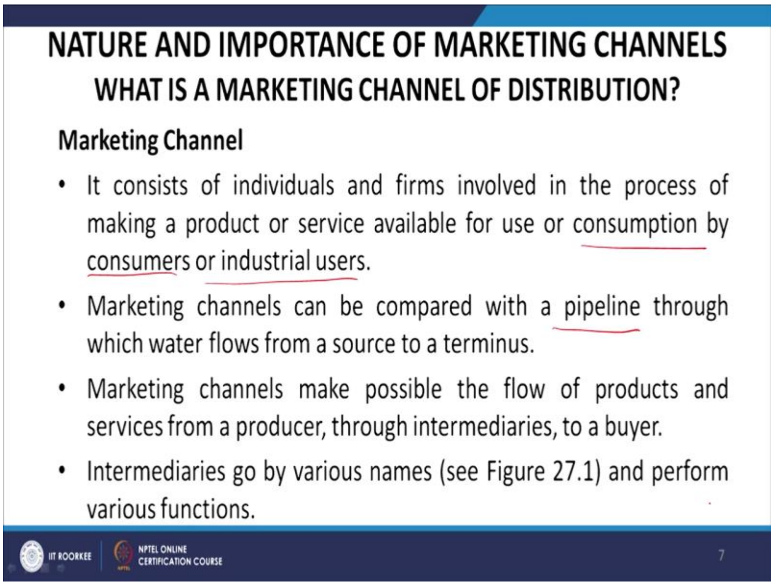

So, now what is the marketing channel of distribution? It consists of individuals and firms involved in the process of making a product or service available for use or consumption by consumers or industrial users. So, this marketing channel include both for the consumers and as well as for the industrial users.

Marketing channels can be compared with a pipeline through which water flows from a source to a terminus. So, that is a seamless integrated network a pipeline, so that this water flows easily through this channel through the channel and similar situation with a marketing channel so, that the products and services can easily flow through these channels to the customers.

So, marketing channels make possible the flow of products and services from a producer through the intermediary to a buyer or the consumer. Intermediaries go by various names so, we will see figure 27.1 and perform various functions.

Now, the problem is that from the supplier from the manufacturer to the customer there are several entities that come in between which are called as intermediaries, but they come by in various names and they perform various functions along this channel.

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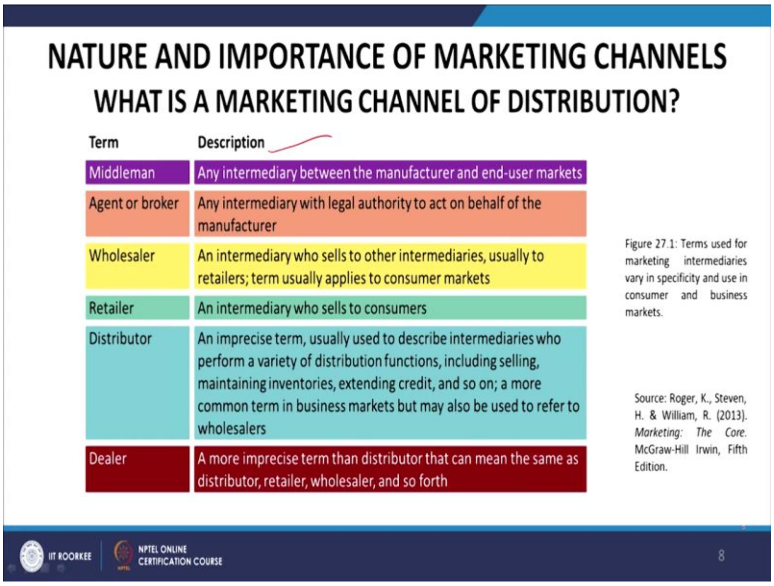

Now, this is what the various names that these intermediaries carry. So, they can be middlemen they are agents or brokers, wholesalers, retailers, distributors and dealers and here we have the description of what they are doing in this channel.

So, the middlemen are any intermediary between the manufacturer and the end user markets, agents and brokers are intermediaries with legal authority to act on behalf of a manufacturer, a wholesaler is an intermediary who supplies to other intermediaries usually to retailers' terms usually applies to consumer markets.

The retailers any intermediary who sells to the consumer, distributor is an imprecise term, usually used to describe intermediaries who perform a variety of distribution functions, including selling, maintaining inventories, extending credit and so on. A more common term in business markets, but may also be used to refer to wholesalers. So, several times this wholesalers and distributors they may be the same. The dealer is a more imprecise term than distributor that can mean the same as distributor retailer wholesaler and so forth.

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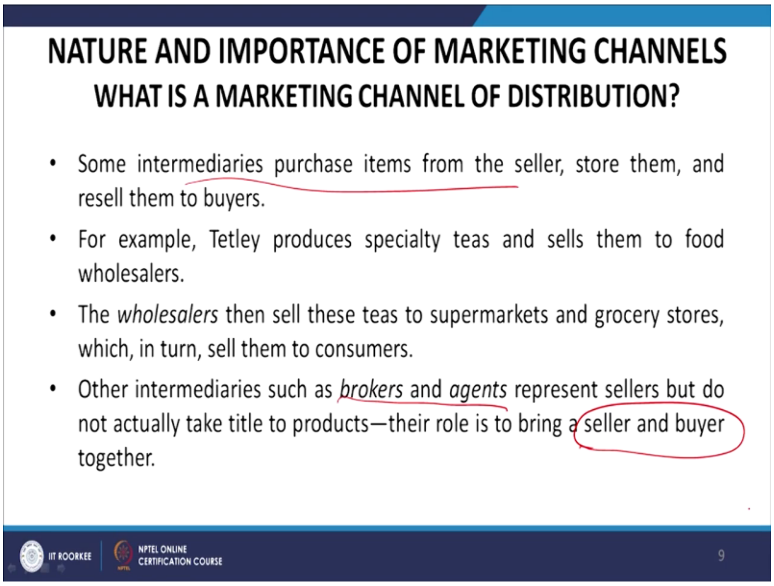

Some intermediaries they purchase items from the sellers, you store them and resell to the buyers. So, now, you see that first intermediaries they are purchasing the items themself keep them in their stores and then they resell them to the buyers. For example, Tetley produces specialty teas and sells them to food wholesalers. The wholesalers then sell these teas to supermarkets and grocery stores which in turn sell them through to consumers.

Other intermediaries such as brokers and agents they represent sellers, but do not actually take title of the product. So, these brokers and agents they are not the wholesalers they do not buy anything they are just representative of the seller. So, these brokers are agents they represent sellers, but do not actually take title of the product their role is to bring a seller and a buyer together. So, only thing that they do is to bring seller and buyer together.

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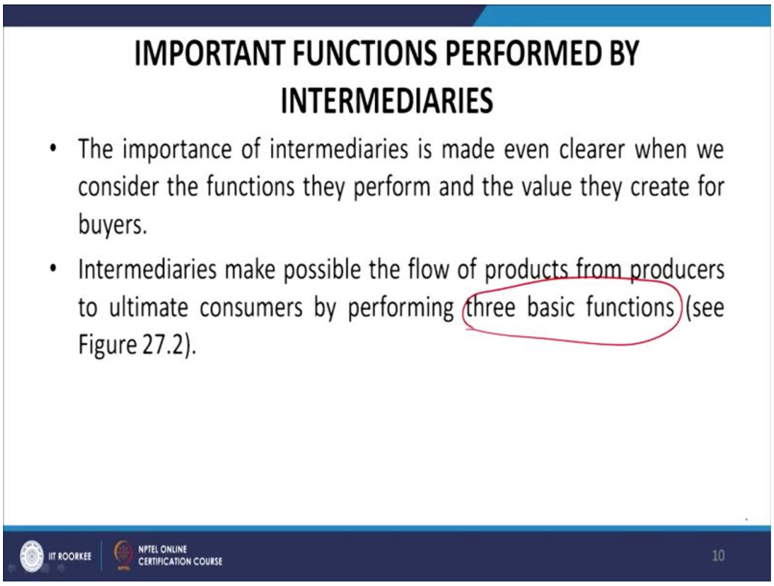

Now, let us look at the important functions that are performed by intermediaries the importance of intermediaries is made even clearer when we consider the functions they perform and the value they create for the buyers. Intermediaries make possible the flow of products from producers to ultimate consumers by performing three basic functions. So, this these are some three basic functions that these intermediaries in whatever form they come they may be agents or brokers etcetera. So, what are these three basic functions?

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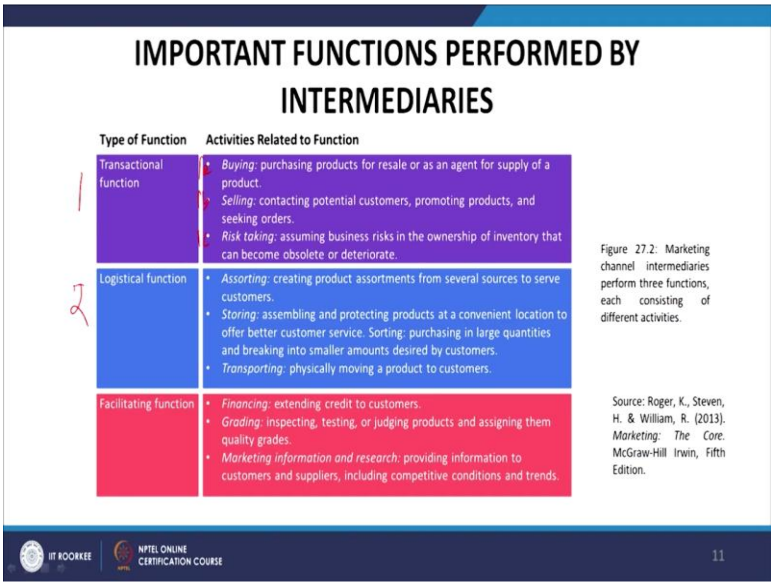

So, these are the three basic type of functions listed on the left hand side, one is the transactional function, another is the logistical function and the third is the facilitating function. Now what let us see what are the activities that is related to each of the function.

So, activities related to the transactional functions are buying, that is purchasing products for resale or as an agent for supply of a product. Then it is selling, that is contacting potential customers, promoting products and seeking orders. The third is risk – taking, assuming business risk in the ownership of inventory that can become obsolete or deteriorate. So, this is the first function and this is 1 a, 1 b and 1 c.

When they when we are talking of logistic functions so, there are three types of activities related to that the first is assorting, that is creating product assortments from several sources to serve customers. The second is a storing, assembling and protecting products at a convenient location to offer better customer service. Sorting is purchasing in large quantities and breaking into smaller amounts that is desired by the customers. The third activity is transporting, that is physical moving physically moving a product to customers.

Now the third type of function are the facilitating functions. So, the first activity under this function is financing, that that is extending credit to customers. The second activity related to facilitating function is grading that that is inspecting testing or judging products and assigning them quality grades. The third activity is marketing information and research that is providing information to customers and suppliers including competitive conditions and trends.

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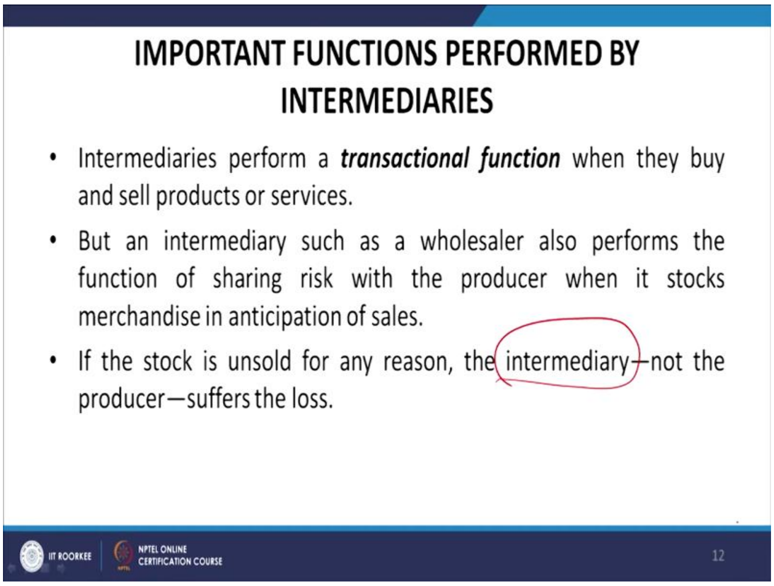

So, intermediaries they perform a transactional function when they buy and sell products or services, but an intermediary such as a wholesaler also performs the function of sharing risk with the producer when it stocks merchandise in anticipation of sales. If the stock is unsold for any reason the intermediary not the producer suffers the loss, because now the intermediary has bought this product. So, the profit and the loss whatever be the situation will be of the intermediary and not of the company or the producer.

The logistics of a transaction involves the details of preparing and getting a product to buyers.

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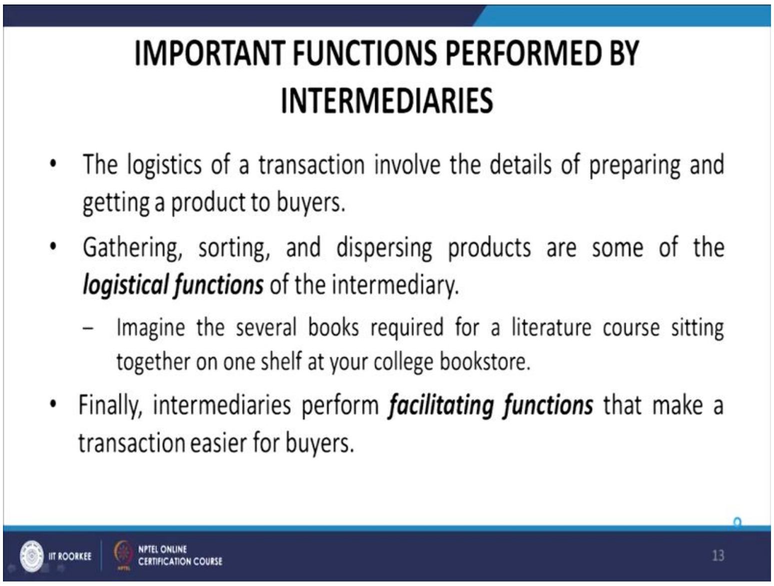

Gathering, sorting and dispersing products are some of the logistic functions of the intermediary, imagine the several books required for a literature course sitting together on one shelf at your college bookstores. Finally, intermediaries perform facilitating functions that make a transaction easier for the buyers.

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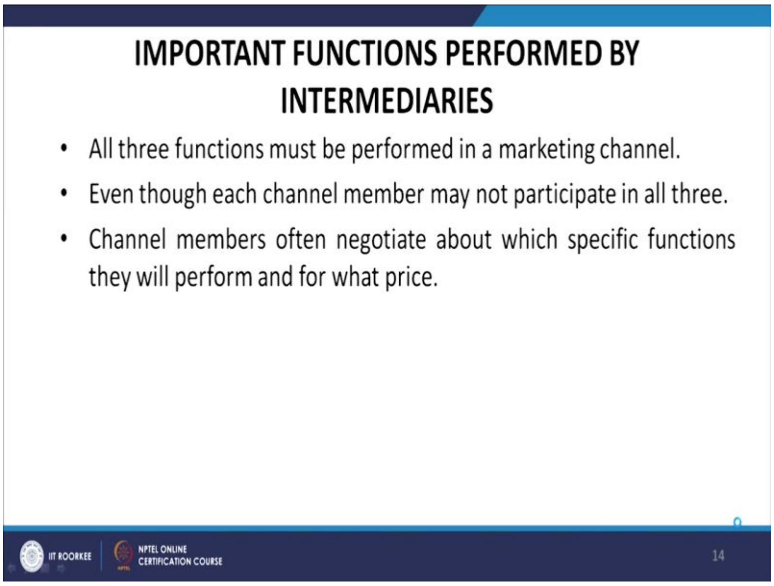

Now, all these three functions must be performed in a marketing channel. Even though each channel member may not participate in all the three functions, but all the three functions have to be performed. So, one intermediary may be performing all these three things or there may be several intermediaries performing these three basic functions. Channel members often negotiate about which specific functions they will perform and for what price, what price they will charge for that function.

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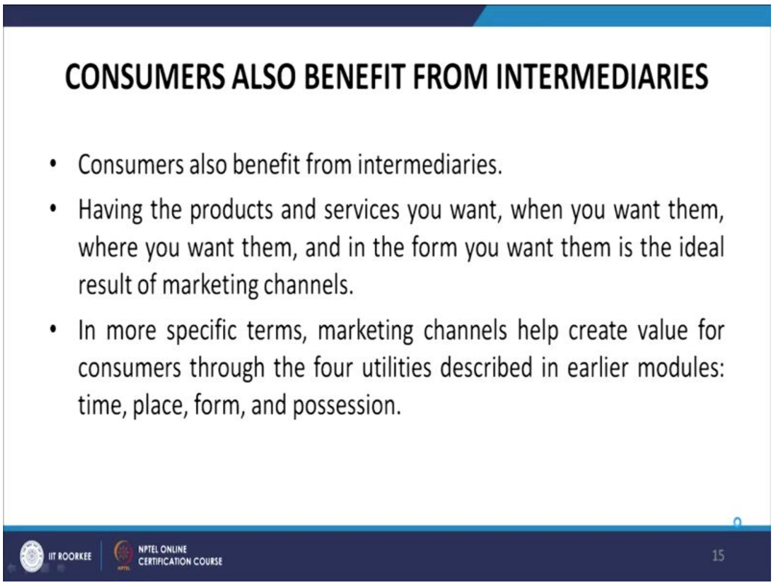

Now, let us look at how consumers benefit from intermediaries. So, consumers they also benefit from intermediaries, having the products and services you want, when you want them, where you want them and in the form you want them is the ideal result of marketing channels. In more specific terms marketing channels help create value for consumers through the four utilities described in the earlier module that is the time utility, the place utility, form utility and possession utility.

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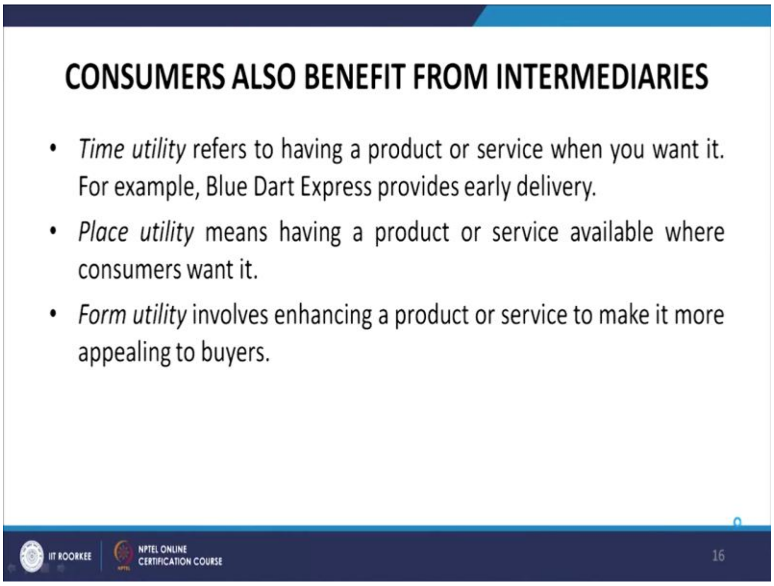

This time utility refers to having a product or service when you wanted. For example, Blue Dart express provides early delivery. Place utility means having a product or service available where consumers want it. Form utility involves enhancing a product or service to make it more appealing to the buyers.

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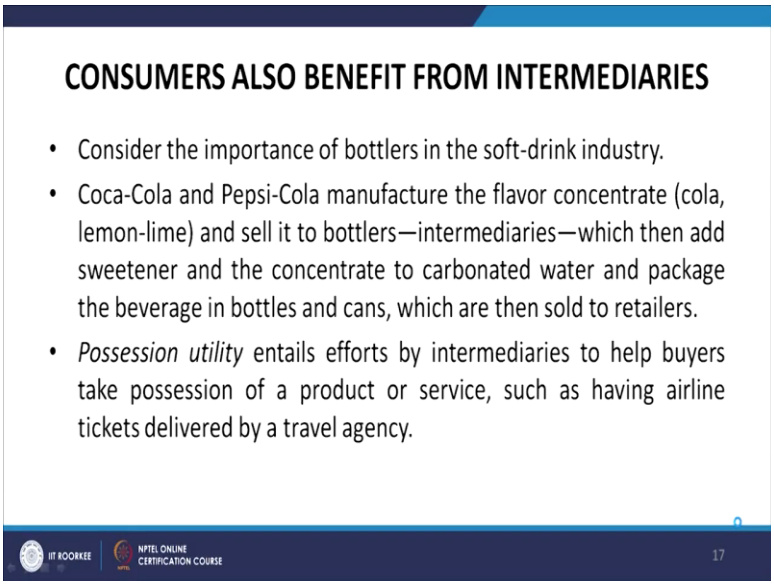

Consider the importance of bottler in the soft-drink industry. Coca-Cola and Pepsi-Cola manufacturers the flavor concentrate that is cola, lemon lime and sell it to the bottlers that the who are intermediaries which then adds sweeteners and the concentrate to carbonated water and package the beverage in bottles and cans, which are then sold to retailers. Possession utility entails efforts by intermediaries to help buyers take possession of a product or service, such as having airline tickets delivered by a travel agency.

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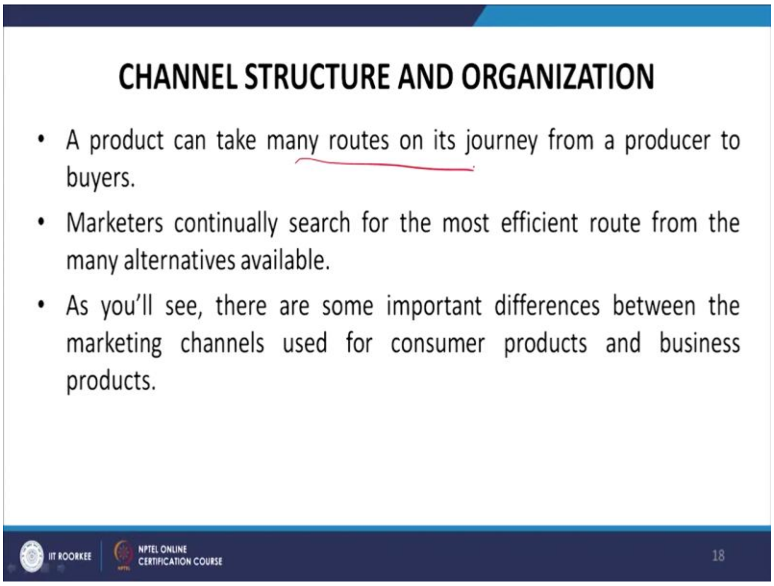

Another thing that we will talk about in this module is the channel structure and organization. A product can take many routes from its journey from a producer to the buyer. Marketers continually search for the most efficient route from the or many alternative available.

So, there are several routes from which the products can move from the producer to the buyer and now it is the role of the marketer to look for the most efficient route. As you will see there are some important differences between the marketing channels used for consumer products and business products.

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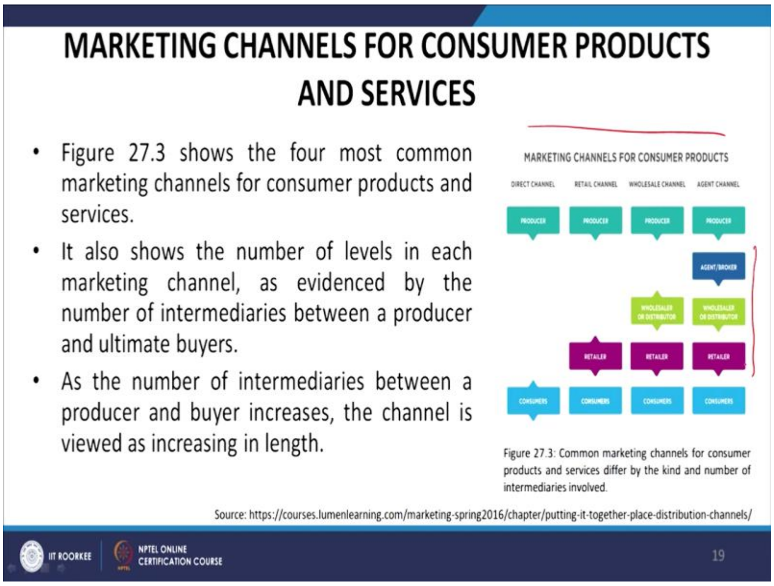

Now, let us look at the marketing channel for consumer products and services. So, this figure on the right hand side it shows the marketing channel for consumer products. So, there are, direct channels that is directly from the producers to the consumer the retail channel.

So, the product moves from the producer to the retailer and then to the consumer. Then there are wholesalers channel in between the retailers and producers come the wholesaler and then there is an agent channel. So, there is a producer he hires an agent who then negotiates with wholesaler or distributors, wholesalers and distributors take on the title of the product and then they sell it to the retailers, then the retailers sell it to the consumer.

So, this figure 27.3 shows the four most common marketing channels for consumer products and services. It also shows the number of levels in each marketing channel. So, these the number of people getting involved they are the number of channels as evidenced by the number of intermediaries between the producer and the ultimate buyer. As the number of intermediaries between a producer and buyer increases, the channel is viewed as increasing in length.

So, in this direct channel that is channel A. So, we are talking about this channel.

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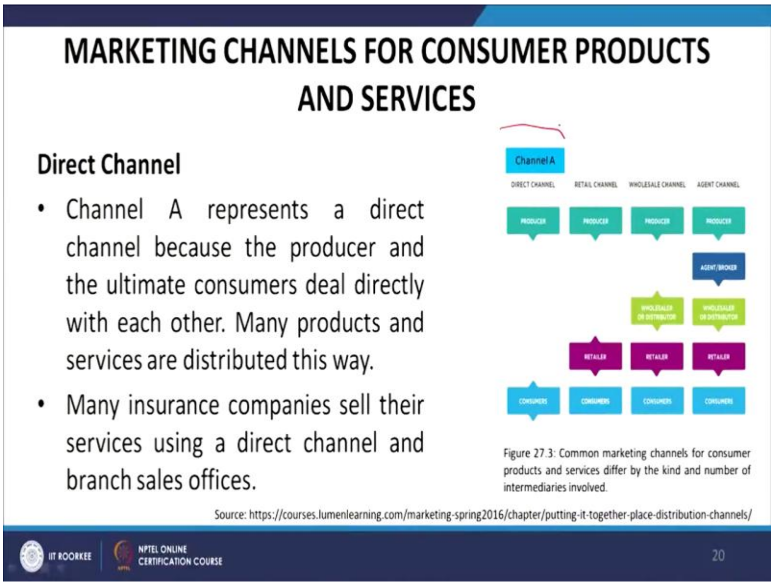

Channel A represents a direct channel because the producer and the ultimate consumers deal directly with each other. Many products and services are distributed this way. Many insurance companies sell their services using a direct channel and branch sales offices.

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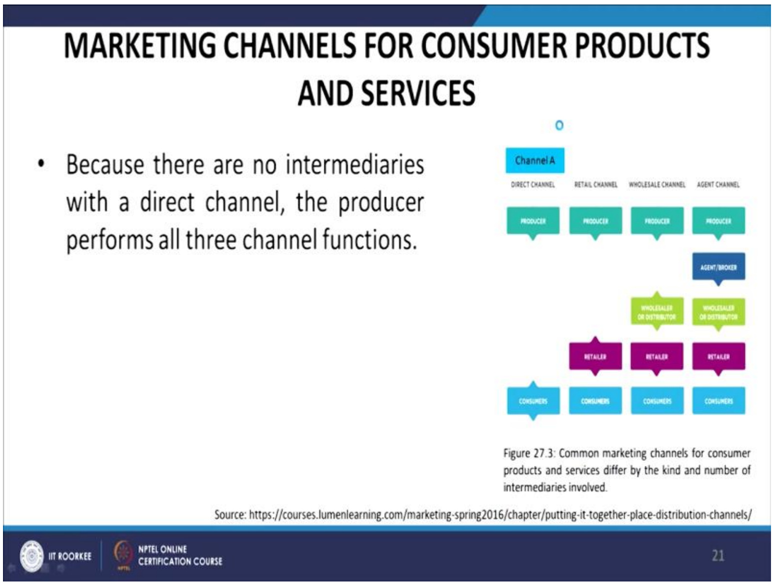

Because there are no intermediaries with the direct channel, the producer performs all three channel functions.

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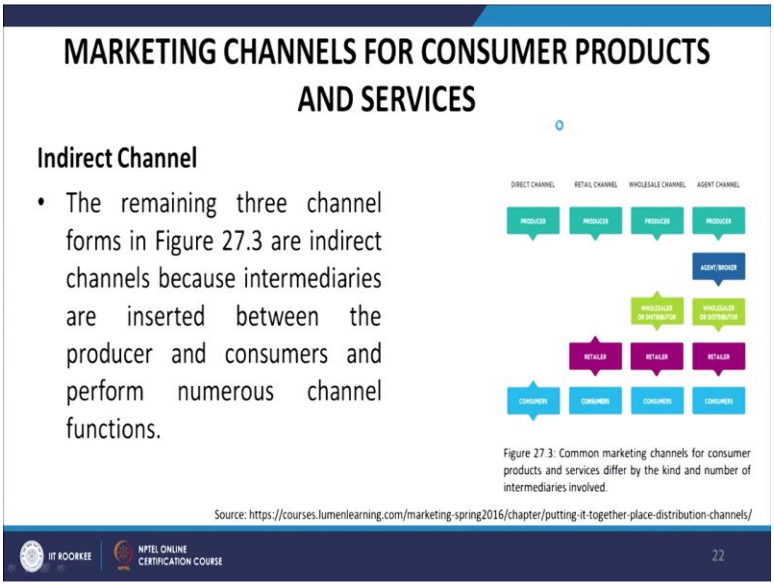

The indirect channels the remaining three channels these three channels these are called indirect channels because there is someone in between the producer and the consumer. So, the remaining three channels forms in figure 27.3 are indirect channels because intermediaries are inserted between the producer and consumers and perform numerous channel functions.

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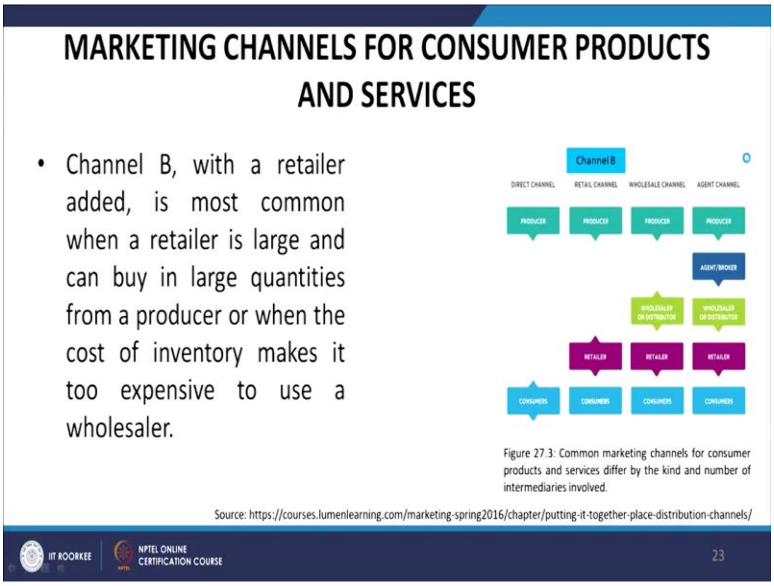

Now, let us look at this indirect channel that is Channel B.

Channel B with the retailer added is most common when a retailer is large and can buy in large quantities from a producer or when the cost of inventory makes it too expensive to use a wholesaler.

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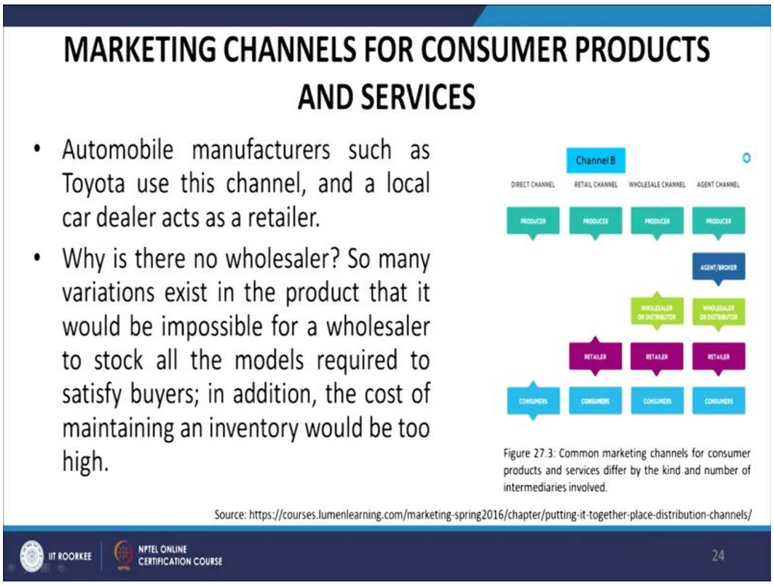

Automobile manufacturers such as Toyota use this channel and the local car, car dealer acts as a retailer.

Why is there no wholesaler? So, many variations exist in the product that it would be impossible for a wholesaler to stock all the models required to satisfy buyers; in addition, the cost of maintaining an inventory would be too high.

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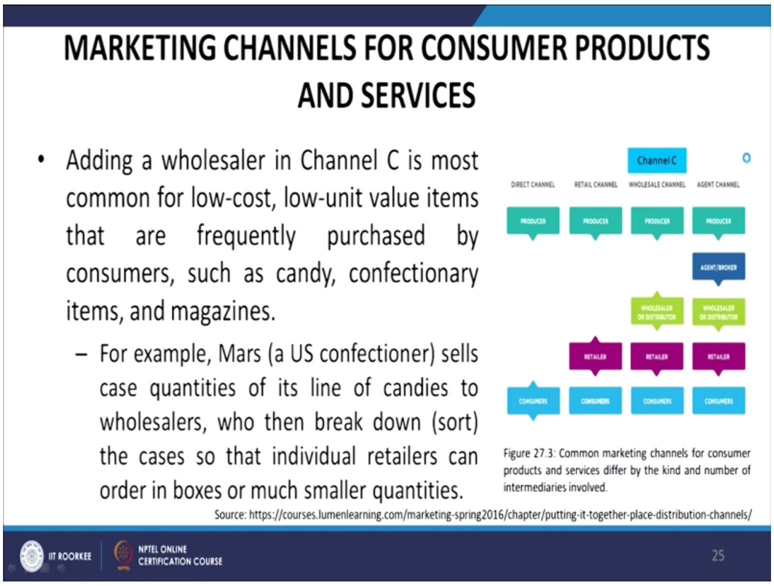

The second type of indirect channel is the Channel C that is the wholesale channel adding a wholesaler in Channel C is most common for low-cost, low-unit value items that are frequently purchased by consumers, such as a candy, confectionery items and magazines.

For example, Mars a US confectioner sells case quantities of its line of candies to wholesalers who then breakdown that is sort the cases. So, that individual retailers can order in boxes or much smaller quantities.

The third type of indirect channel is Channel D, Channel D is the is the most indirect channel is employed when there are many small manufacturers and many small retailers.

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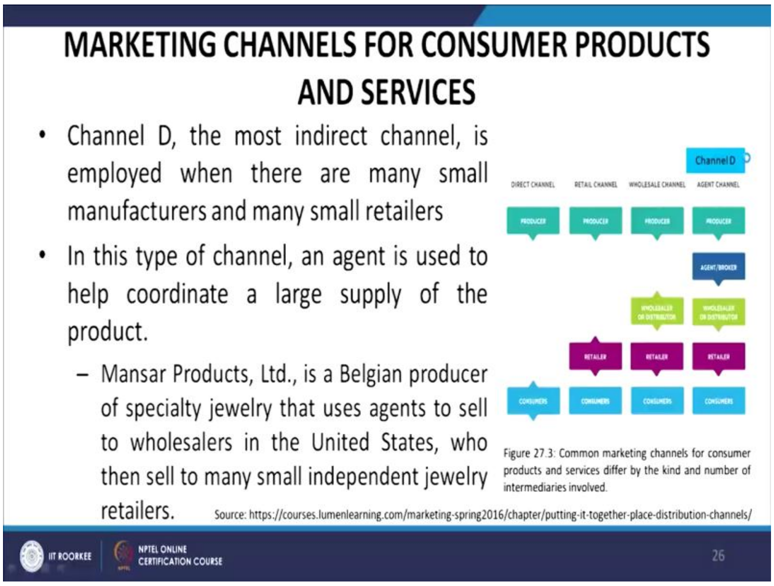

In this type of channel, an agent is used to help conduct a large supply of the product, Mansar Products Limited is a Belgian producer of a specialty jewelry that uses agents to sell to wholesalers in the United States, who then sell to many small independent jewelry retailers.

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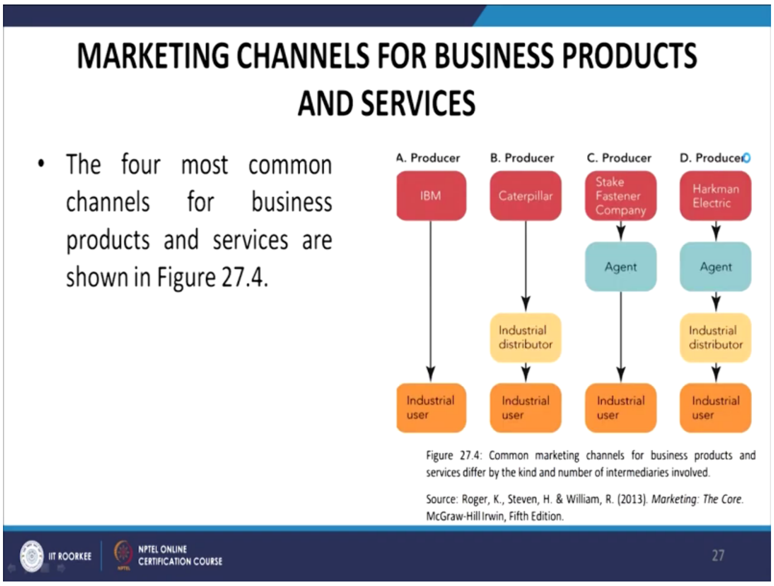

The four most common channels for business products and services are shown in this figure 27.4. So, again there is one industrial distributor. So, then in B there is an industrial distributor and industrial user, then there is a agent and then industrial distributor and an agent.

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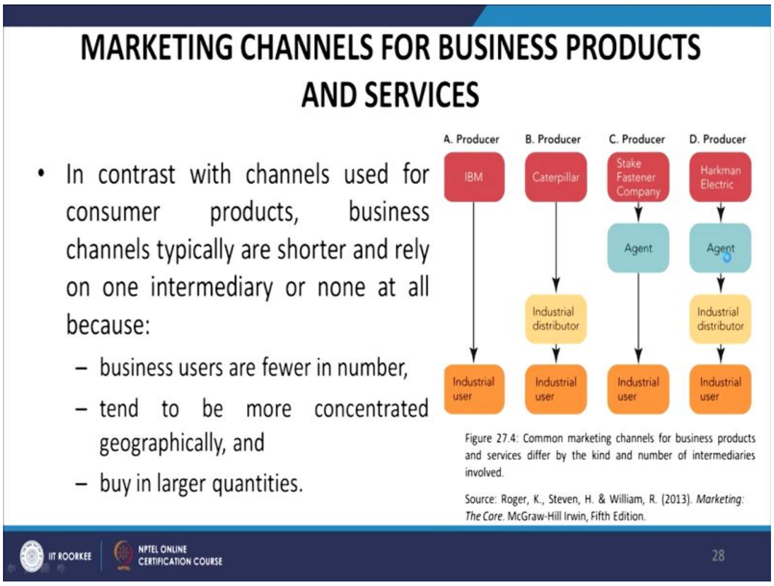

So, in contrast with channels used for consumers' product, business channels typically are shorter and rely on one intermediary or none at all. Because business users are fewer or lesser in number, tends to be more concentrated geographically and they buy in large quantities.

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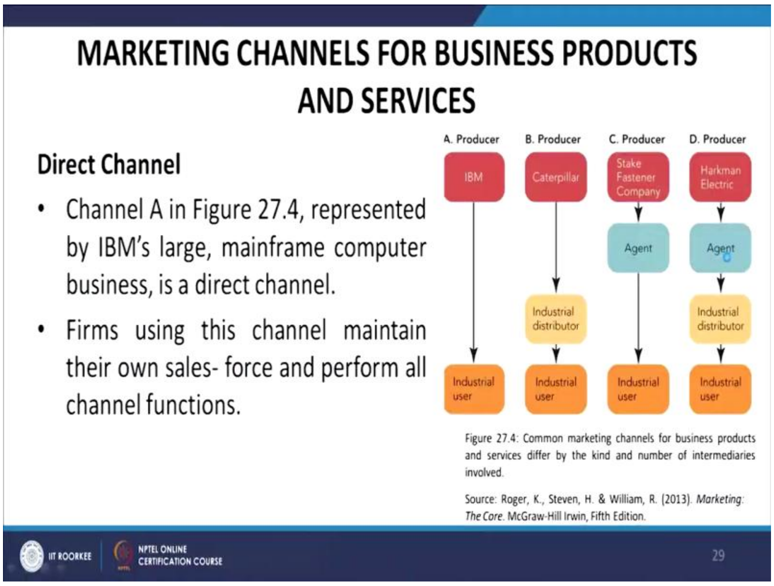

Channel A in figure 27.4 this presented by IBM's large' mainframe computer business is the direct channel. Firms using this channel maintain their own sales-force and perform all channel functions themselves.

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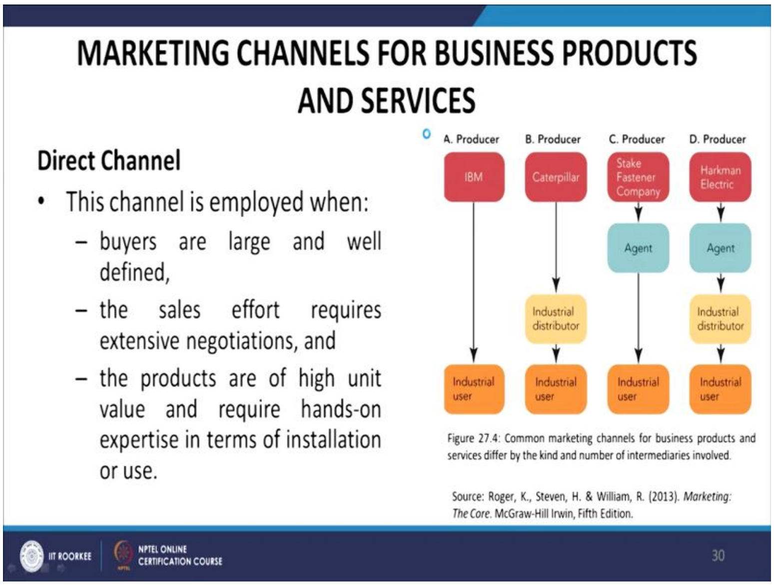

This channel is employed when buyers are large and well defined, the sales efforts require extensive negotiations and the products are of large unit value and require hands on expertise in terms of installation or use.

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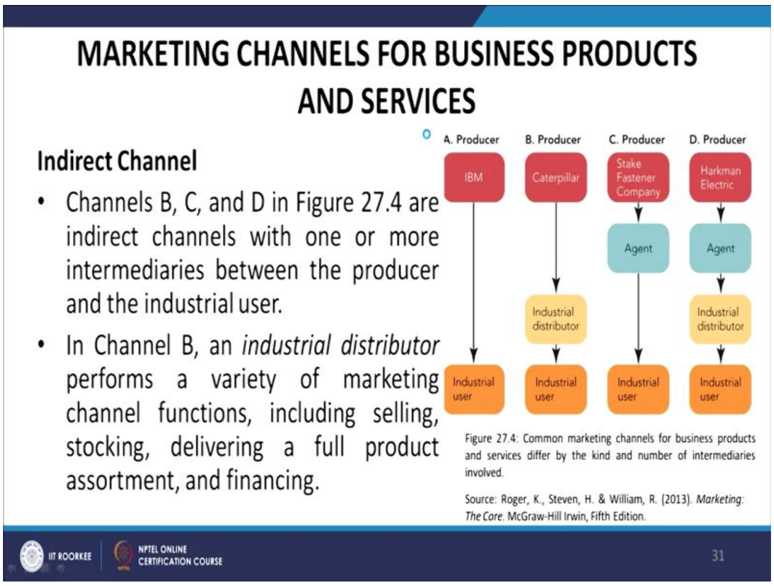

Now, the channels B, C, D in figure 27.4 they are called as indirect channels with one or more intermediaries between the producer and the industrial user. In channel B, an industrial distributor performs a variety of marketing channel functions, including selling, stocking, delivering a full product assortment and financing.

In many ways industrial distributors are like wholesalers in consumer channels. Caterpillar uses industrial distributors to sell its construction and mining equipment in over 200 countries.

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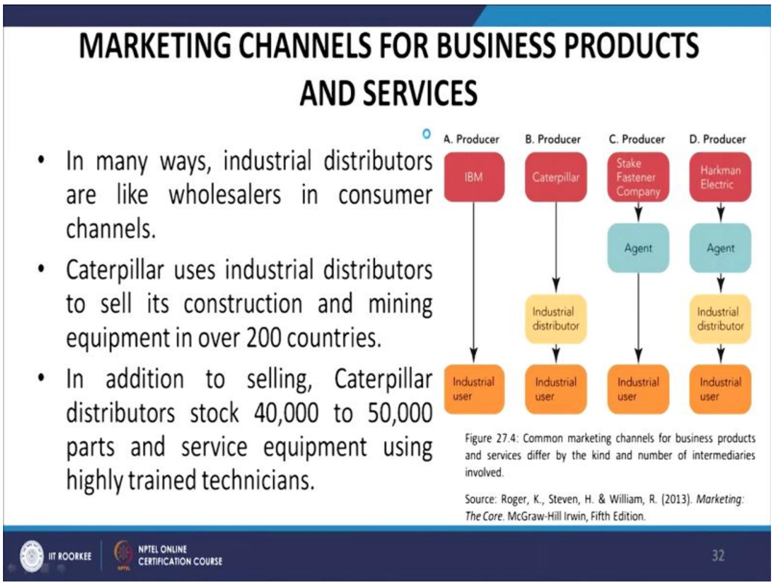

In addition to selling, caterpillar distributors stock 40,000 to 50,000 parts and serviced equipment using highly trained technicians.

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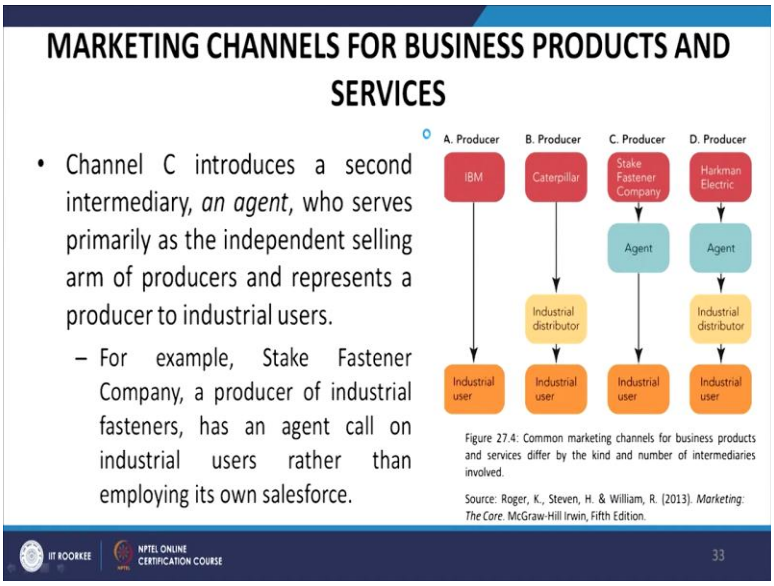

Channel C introduces a second intermediary that is an agent, who serves primarily as the independent selling arm of producers and represents a producer to industrial users. For example, Stake Fastener Company, a producer of industrial fasteners, has an agent call on industrial users rather than employing its own sales force.

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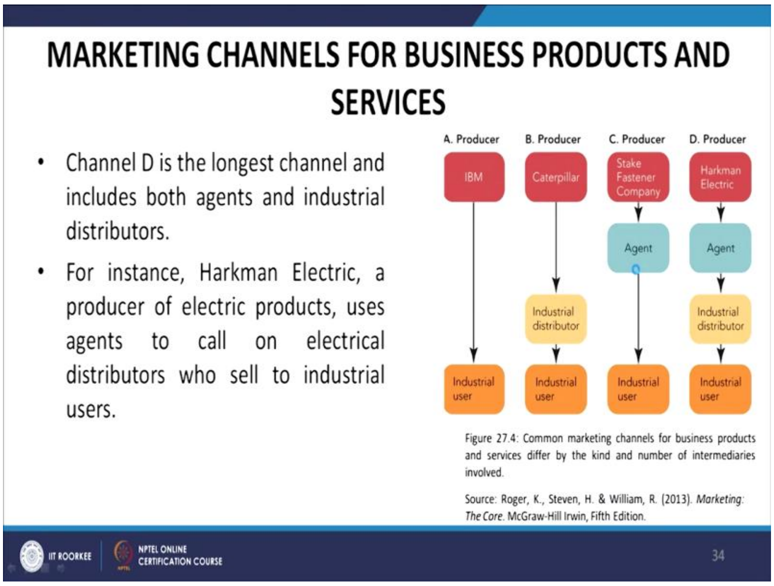

Channel D is the longest channel and includes both agents and industrial distributors. For instance, Harkman Electric, a producer of electric products, uses agents to call on electrical distributors who sell to industrial users.

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Next important thing is electronic marketing channels, these common marketing channels for consumers and business products and services are not the only route to the marketplace. Advances in electronic commerce have opened new avenues for reaching buyers and creating customer value. Interactive electronic technology has made possible electronic marketing channels, which employ the internet to make products and services available for consumption or use by consumers or organizational buyers or business buyers.

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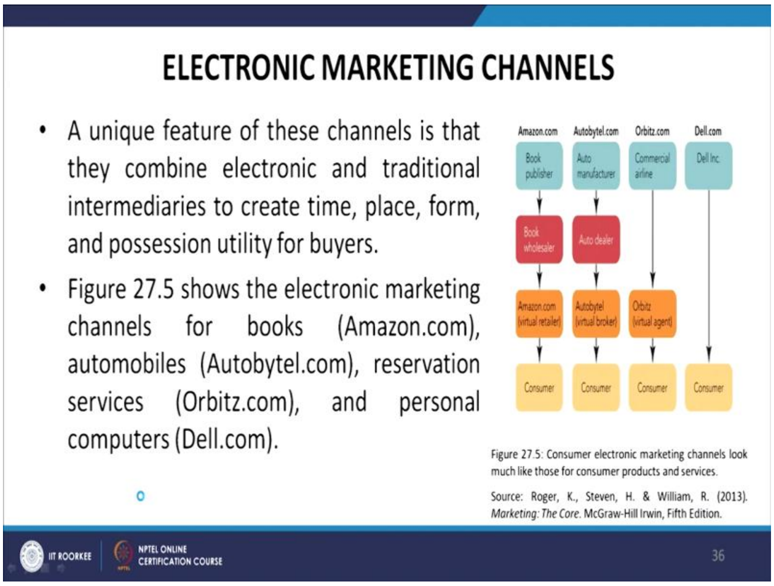

A unique feature of these channels is that they combine electronic and traditional intermediaries to create time, place, form and possession utility for buyers. So, this figure 27.5 shows the electronic marketing channels for books Amazon dot com, automobiles Autobytel dot com, reservation services Orbitz dot com and personal computers that is Dell dot Dell dot com.

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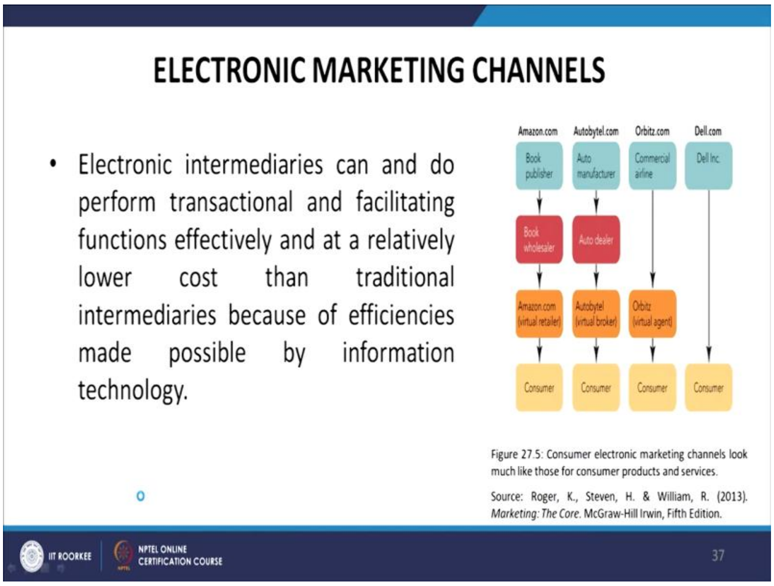

Electronic intermediaries can and do perform transactional and facilitating functions effectively and at a relatively lower cost than traditional intermediaries because of efficiencies made possible by information technology.

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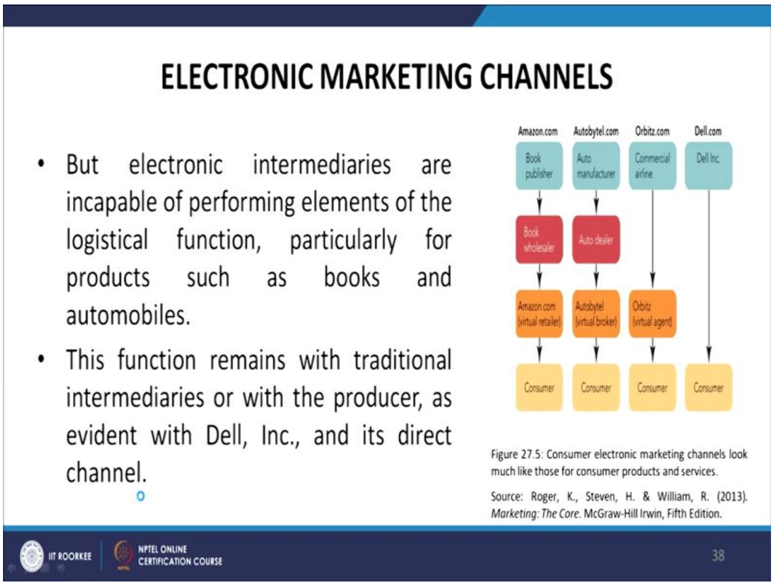

But electronic intermediaries are incapable of performing elements of the logistic function, particularly for products such as books and automobiles. This functions remains with traditional intermediaries or with the producer, as evident with Dell, Incorporated and its direct channel.

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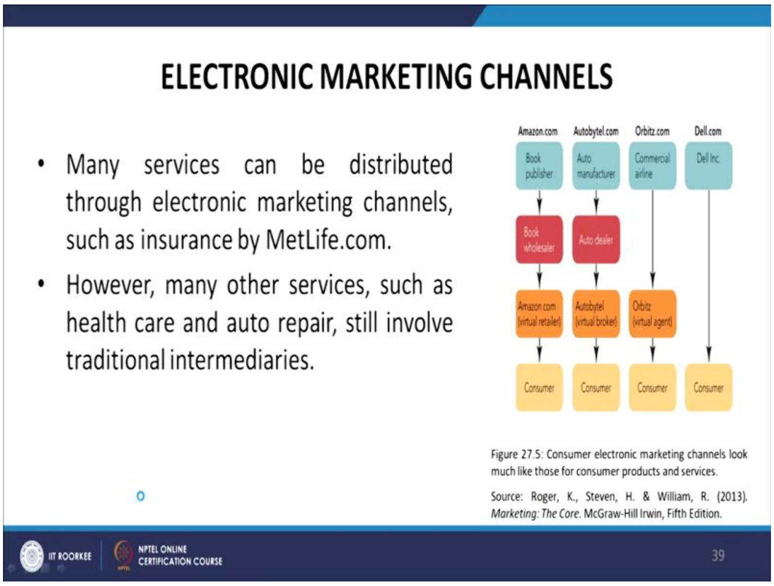

Many services can be distributed through electronic marketing channels, such as insurance by MetLife dot com. However, many other services, such as health care and auto repair, still involve traditional intermediaries.

Now let us look at the direct and multichannel marketing, many forms also use direct and multichannel marketing to reach the buyers.

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What is direct marketing? Direct marketing channels allow consumers to buy products by interacting with various advertising media without a face-to-face meeting with the salesman. Direct marketing channels include mail-order selling, direct-mail sales, catalog sales, telemarketing, interactive media and televised home shopping.

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Marketers such as Nestle, in addition to using traditional channels composed of wholesalers and retailers, also employ direct marketing through catalogs and telemarketing to reach more buyers.

Multichannel marketing is the blending of different communication and delivery channels that are mutually reinforcing in attracting, retaining and building relationships with consumers who shop and buy in traditional intermediaries and online.

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Multichannel marketing seeks to integrate a firm's electronic marketing and delivery channels. Multichannel marketing also can leverage the value adding capabilities of different channels. For example, retail stores leverage their physical presence by allowing customers to pick up their online orders at a nearby store or return or exchange nonstore purchases if they so wish.

Catalogues can also serve as shopping tools for online purchasing, as they do for store purchasing.

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Websites can help consumers do their homework before visiting a store. Staples second largest internet retailer in the United States has leveraged is its store, catalog and website channels with impressive results.

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Now, let us look at the dual distribution and strategic channel alliances, in some situations, producers use dual distribution and arrangement whereby a firm reaches different buyers by employing two or more different types of channels for the same basic product. For example, GE sells its large appliance directly to home and apartment builders, but uses retail stores to sell to the consumers.

A recent innovation in marketing channel is the use of strategic channel alliances, whereby one firm's marketing channel is used to sell other firms products. The strategic alliances are popular in global marketing, where the creation of marketing channel relationships is expensive and time-consuming.

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Now, what are these vertical marketing systems, the traditional marketing channels described so far represents a loosely knit network of independent producers and intermediaries brought together to distribute products and services. However, other channel arrangements exist for the purpose of improving efficiency in performing channel functions and achieving greater marketing effectiveness. And these arrangements are called as vertical marketing systems.

Now let us look at this vertical marketing system.

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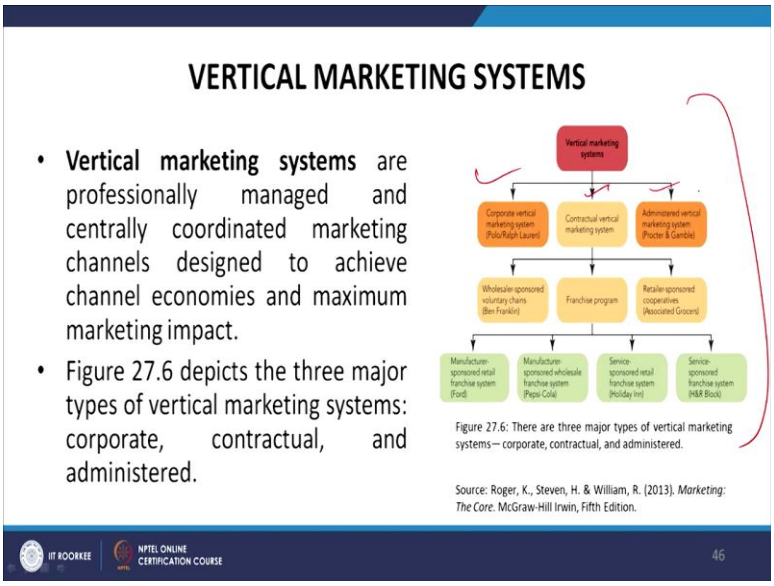

This is figure 27.6. So, vertical marketing systems are professionally managed and centrally coordinated marketing channels designed to achieve channel economies and maximum marketing impact. This figure 27.6 depicts the three major types of vertical marketing system, the corporate, the contractual and the administered.

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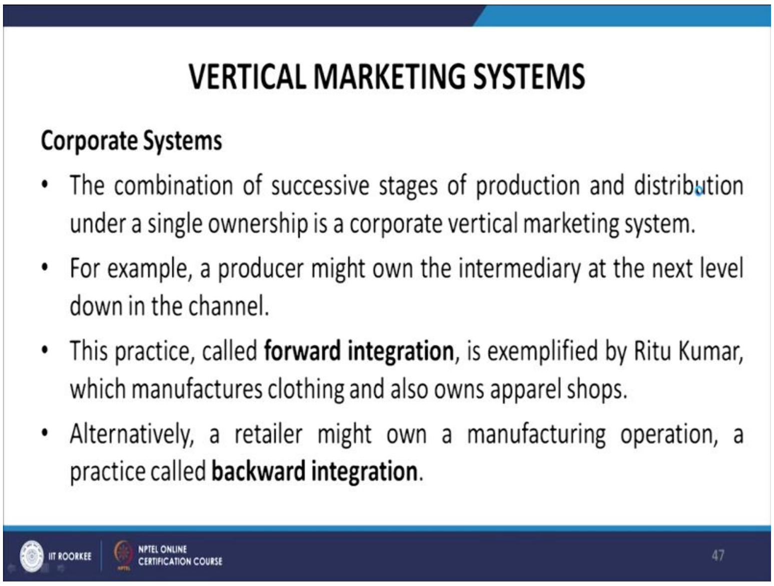

In the corporate system, the combination of successive stages of production and distribution under a single ownership is the corporate vertical marketing system. For example, a producer might own the intermediary at the next level down in the channel.

This factor is called as forward integration is exemplified by Ritu Kumar, which manufactures clothes and also own apparel shops. Alternatively, a retailer might own a manufacturing operation and this practice is called as backward integration.

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Companies seeking to reduce distribution cost and gain greater control over supply sources or resale of their products pursue forward and backward integration. However, both types of integration increase the company's capital investment and fixed cost. For this reason, many companies favor contractual vertical marketing systems to achieve channel efficiencies and marketing effectiveness.

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Under a contractual vertical marketing system, independent production and distribution firms integrate their efforts on a contractual basis to obtain greater functional economies and marketing impact that they could achieve alone. Contractual systems are the most popular among the three types of vertical marketing systems.

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Wholesale is sponsored voluntary chains involve a wholesaler that develops a contractual relationship with small, independent retailers to standardize and coordinate buying practices, merchandising programs and inventory management efforts. Then there are these retail retailers sponsored cooperative they exist when a small, independent retailers form an organization that operates a wholesale facility cooperatively.

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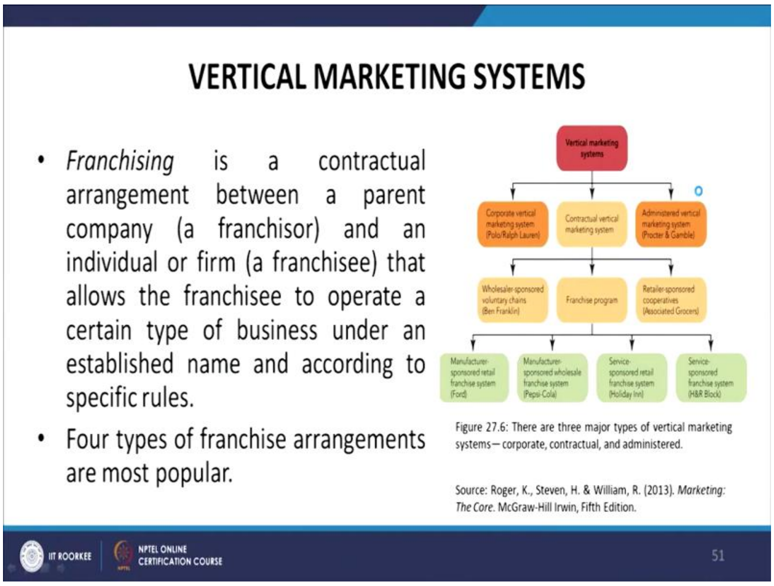

Franchising is a contractual arrangement between a parent company a franchisor and an individual or firm that is a franchisee that allows the franchisee to operate a certain type of business under an established name and according to specific rules. The four types of franchising arrangements are most popular.

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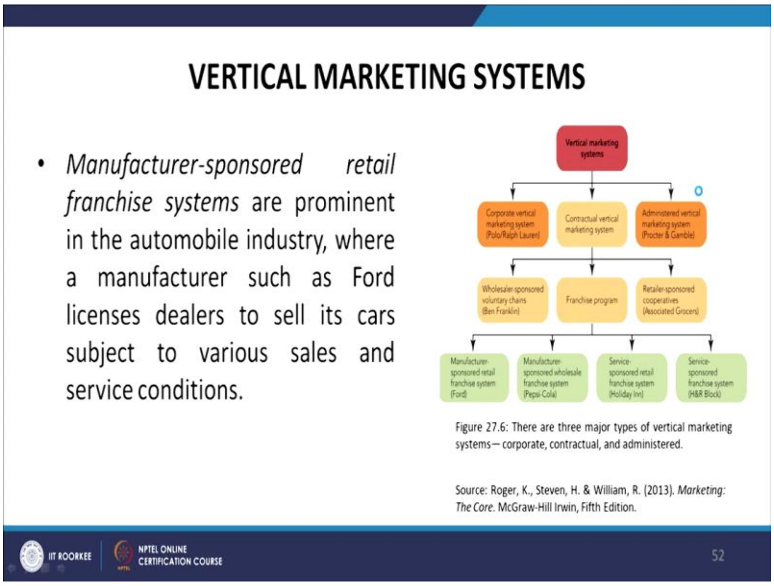

One is manufacturer - sponsored retail franchise system, they are one is the manufacturer sponsored retail manufacturing systems they are prominent in the automobile industry, where a manufacturer such as Ford license dealers to sell its cars subject to various sales and service conditions.

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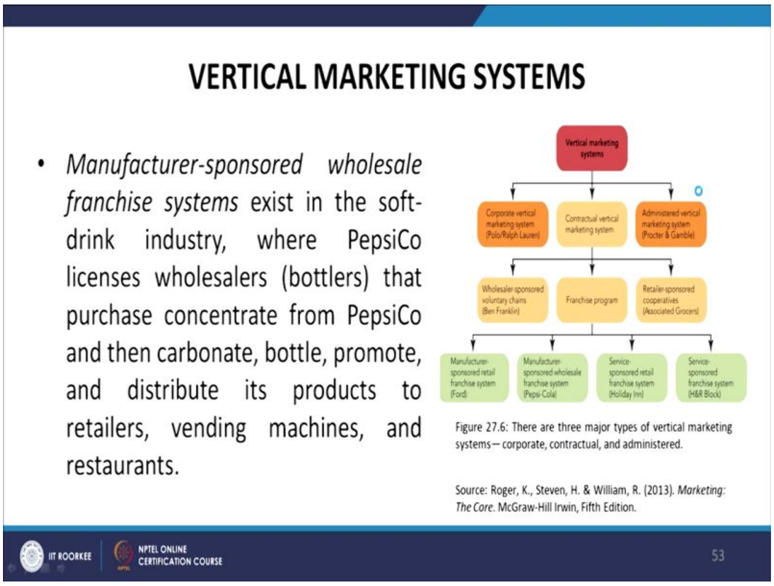

This manufacturer - sponsored wholesale franchise system exists in the soft-drink industry, where PepsiCo licenses wholesalers that is bottlers that purchase concentrate from PepsiCo and then carbonate, bottle, promote and distribute its products to retailers, vending machines and restaurants.

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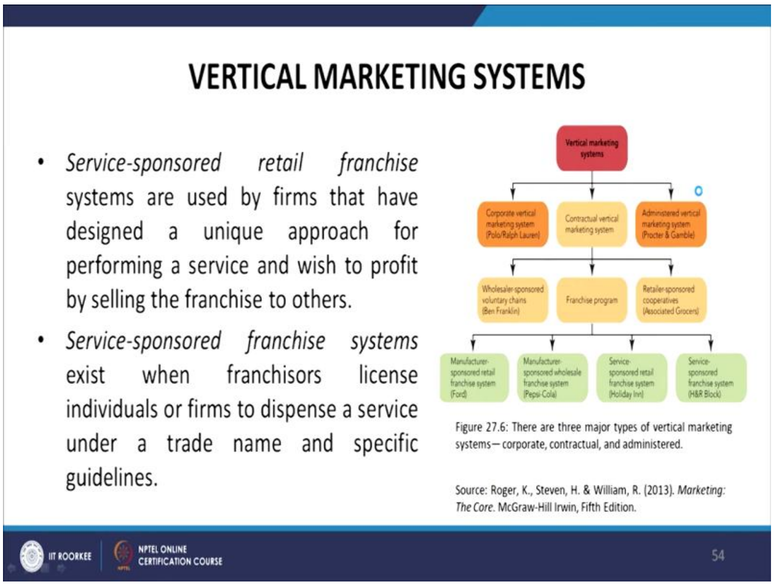

Then there are then there are some service-sponsored retail franchise systems they are used by firms that have designed a unique approach for performing a service and wish to profit by selling the franchise to others. Services sponsored franchise system exists when franchisors license individual or firms to dispense a service under a trade name and specific guidelines.

Then let us the talk of the administered system.

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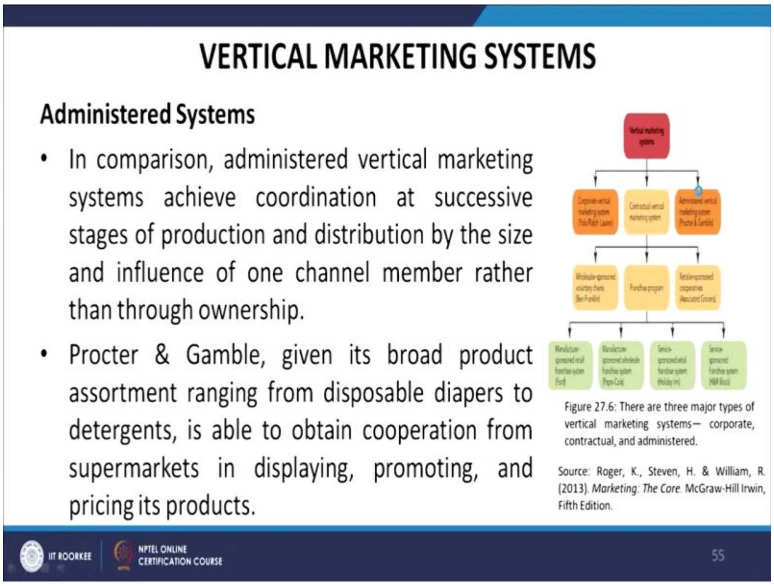

In comparison, administered vertical marketing system achieve coordination at successive stages of production and distribution by the size and influence of one channel member rather than through ownership.

Procter and Gamble given its broad product assortment ranging from disposable diapers to detergents, is able to obtain cooperation from supermarkets in displaying, promoting and pricing its products.

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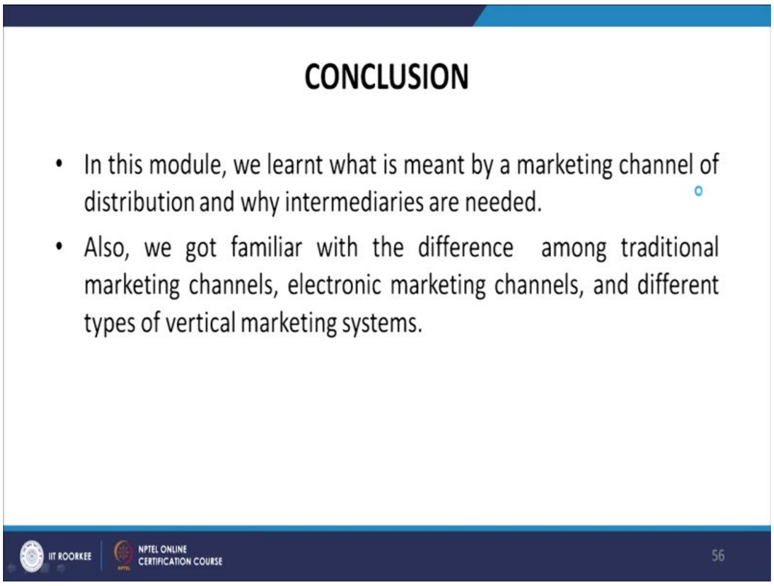

So, in order to conclude this module, we have learnt what is meant by a marketing channel of distribution and why intermediaries are needed. Also, we got familiar with the differences among traditional marketing channels, electronic marketing channels and different types of vertical marketing systems.

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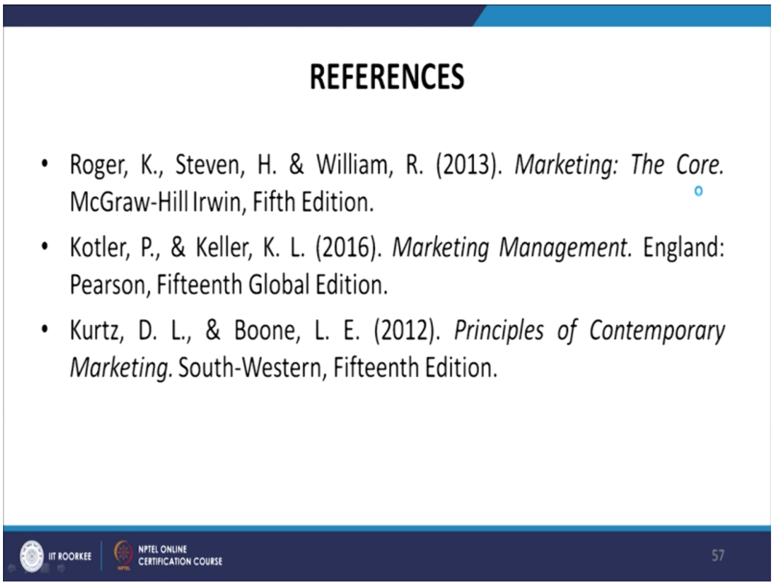

And these are the three books from which the material for this module was taken.

Thank you.