Introduction to Marketing Essentials
Prof. Zillur Rahman
Department of Management Studies
Indian Institute of Technology, Roorkee

Lecture – 28
Managing Marketing Channels and Supply Chains – II

Welcome to Introduction to Marketing Essentials. Now, we will talk about module 28 and we are continuing with understanding of Managing Marketing Channels and Supply Chains. Now, let us look at what are the things that will be covered in this module.

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So, we will describe factors that marketing executive consider when selecting and managing a marketing channel. Then we will go about explaining what supply chains and logistics management are and how they relate to marketing strategy.

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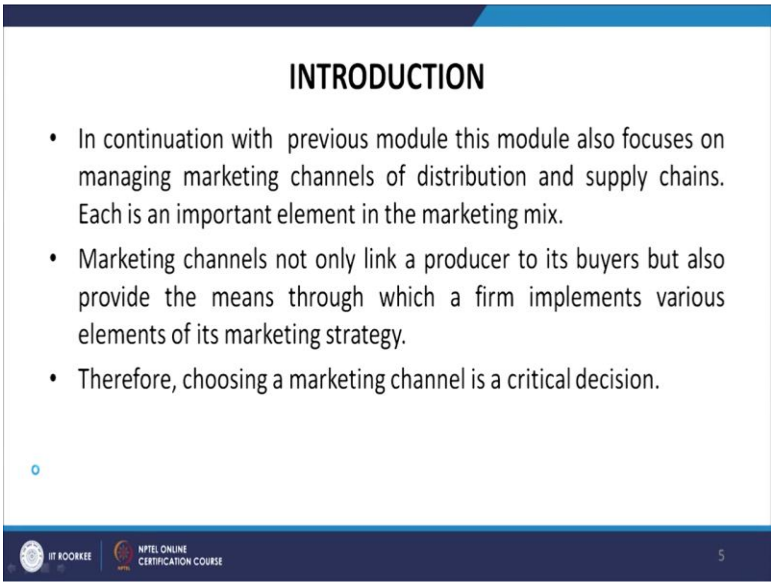

Now, to introduce in continuation with previous module, this module also focus on managing marketing channels of distribution and supply chains. Each is an important element in the marketing mix. Marketing channels not only link a producer to its buyer, but also provides the means through which a form implements various elements of its marketing strategy. Therefore, choosing a right marketing channel is a critical decision.

Now, we will talk about marketing channel, choice and managements. So, what are the factors that affect channel choice and management? So, marketing executives consider three questions when choosing a marketing channel and intermediaries.

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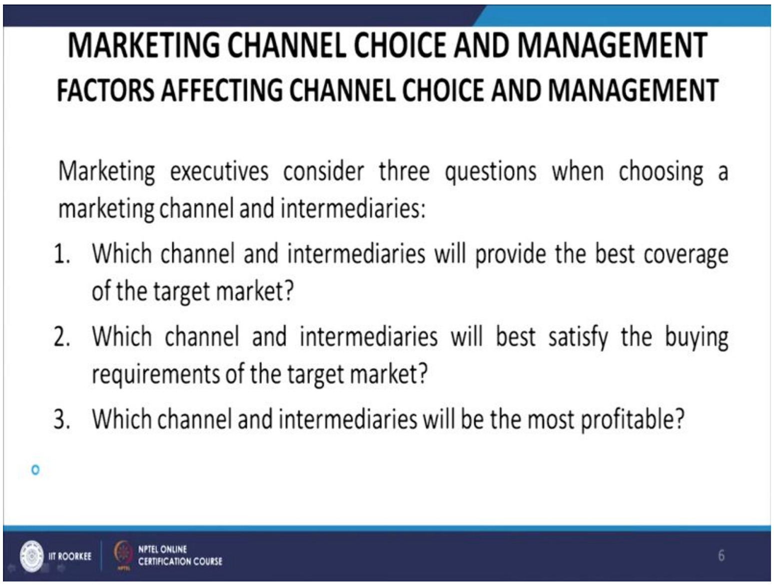

The first question is which channel and intermediaries will provide the best coverage of the target market? The second question is which channel and intermediary will best satisfy the buying requirements of the target market? And, the third is which channel and intermediaries will be the most profitable?

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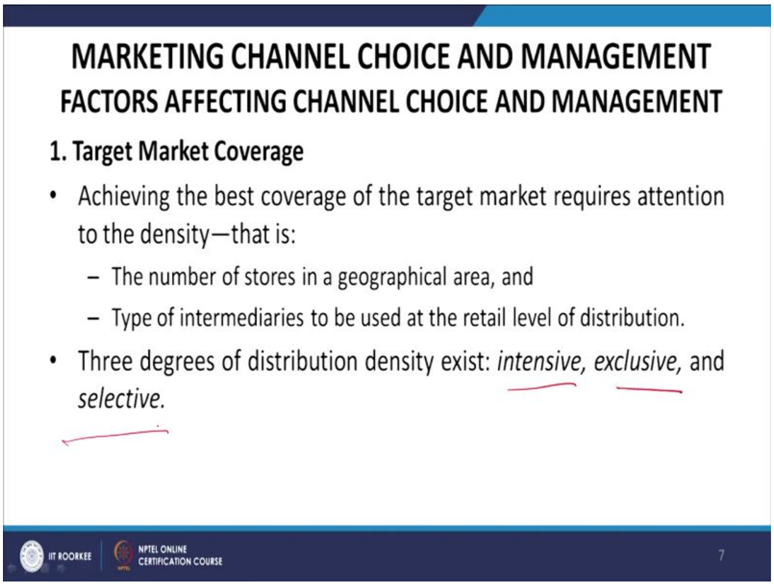

So, now we will talk about each of these questions. So, the first is the target market coverage; achieving the best coverage of the target market requires attention to the density that is the number of stores in a geographical area and the type of intermediaries to be used at the retailer level of distribution. Now, three degrees of distribution density exist: one is intensive, second is exclusive and the third is selective.

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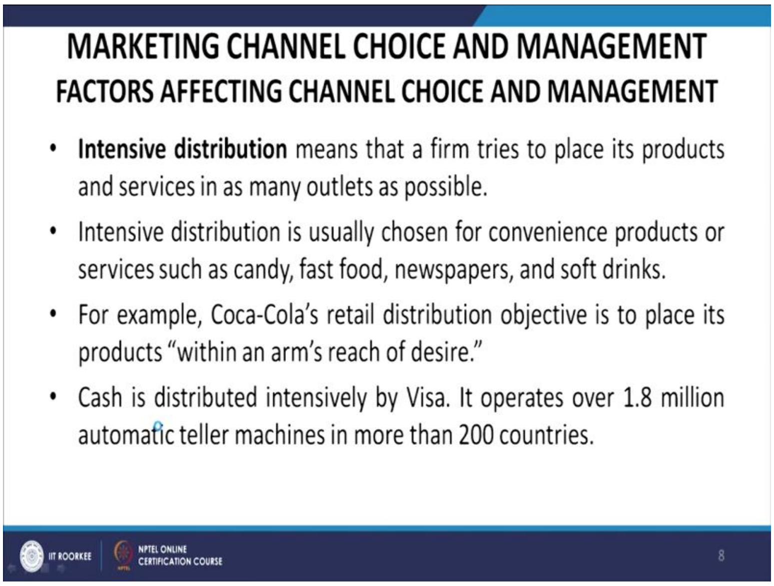

What is this intensive distribution? It means that a firm tries to place its product and services in as many outlets as possible. Intensive distribution is usually chosen for convenience products or services such as candies, fast food, newspapers and soft drinks. For example, Coca-Cola's retail distribution objective is to place its products "within an arm's reach of desire." Cash is distributed intensively by Visa. It operates over 1.8 million automatic teller machines in more than 200 countries.

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While, exclusive distribution is the extreme opposite of intensive distribution, because only one retailer in a specified geographic area carries the firm's products. Exclusive distribution is typically chosen for specialty products or services, such as some women's fragrances and men's and women's apparel and accessories. Gucci, one of the world's largest luxury product companies, uses exclusive distribution in the marketing of its brands.

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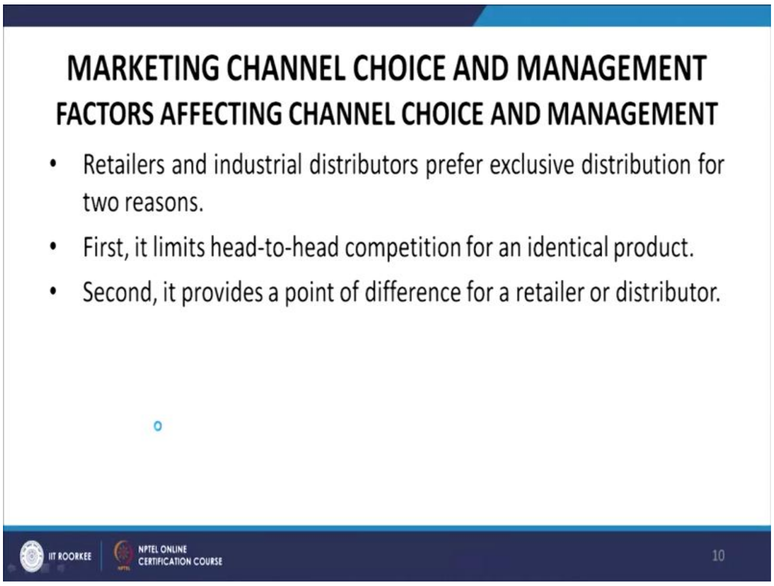

Retailers and industrial distributors prefer exclusive distribution for two reasons. First, is it limits head to head competition for an identical product. Second, is it provides a point of difference for the retailers or the distributors. While, selective distribution lies between these two extremes of intensive and exclusive distribution.

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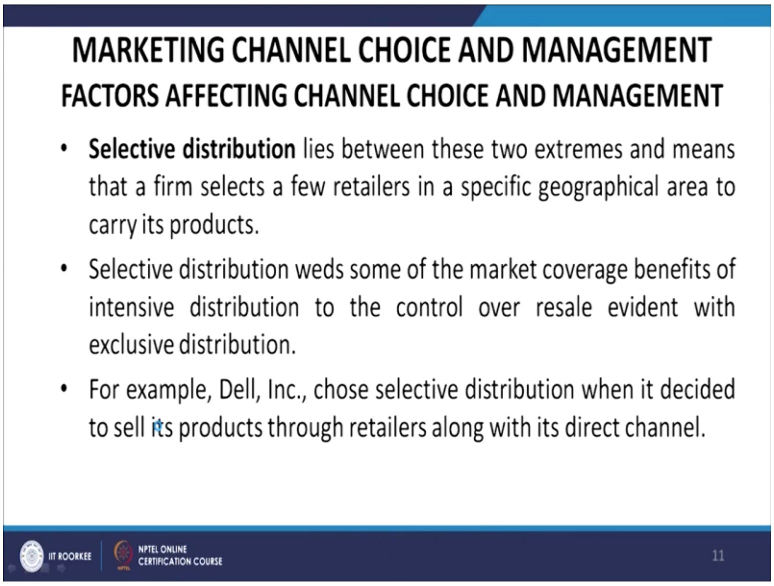

And, means that a firm selects a few retailers in a specific geographical area to carry its product. Selective distribution weds some of the market coverage benefits of intensive distribution to the control over the resale evident with exclusive distribution. For example, Dell Inc. chose selective distribution when it decided to sell its products through retailers along with its direct channels.

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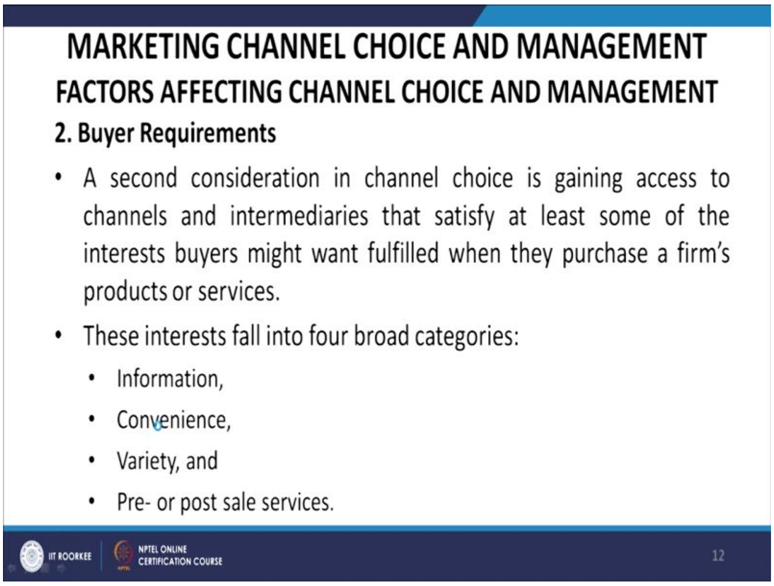

Another issue that needs to be considered here is the buyer requirement. So, the first was the target market coverage and the second is this buyer requirement. A second consideration in channel choice is gaining access to channels and intermediaries that satisfy at least some of the interest buyers might want fulfilled when they purchase the firm’s product or services.

These interests fall into four broad categories and these categories are that of information, convenience, variety and pre or post sales service.

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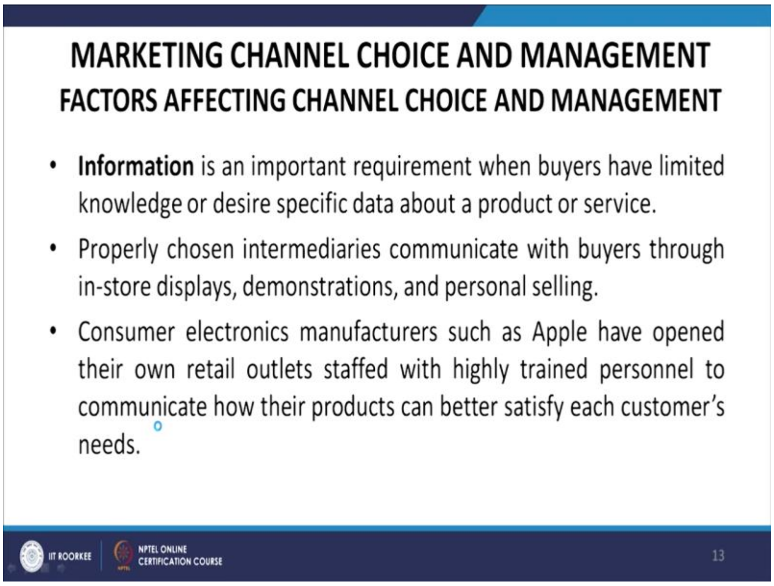

Now, let us look at each of these interest, the first interest is information. It is an important requirement when buyers have limited knowledge or desire specific data about a product or service. Properly chosen intermediaries communicate with buyers through in store display, demonstrations and personal selling. Consumer electronics manufacturers such as Apple have opened their own retail outlets staffed with highly trained personnel to communicate how their product can better satisfy each customer's needs.

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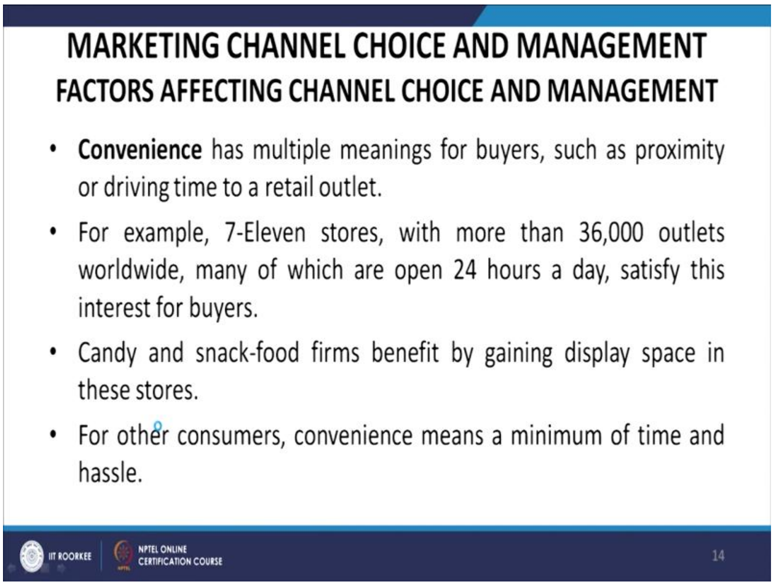

Another is the convenience that has multiple meaning for buyers such as proximity or driving time to the retail outlet. For example, those 7-Eleven stores with more than 36,000 outlets worldwide, many of which are open 24 hours a day satisfy this interest for buyers. Candy and snack food firms benefit by gaining display space in these stores. For other consumers convenience means a minimum of time and hassle.

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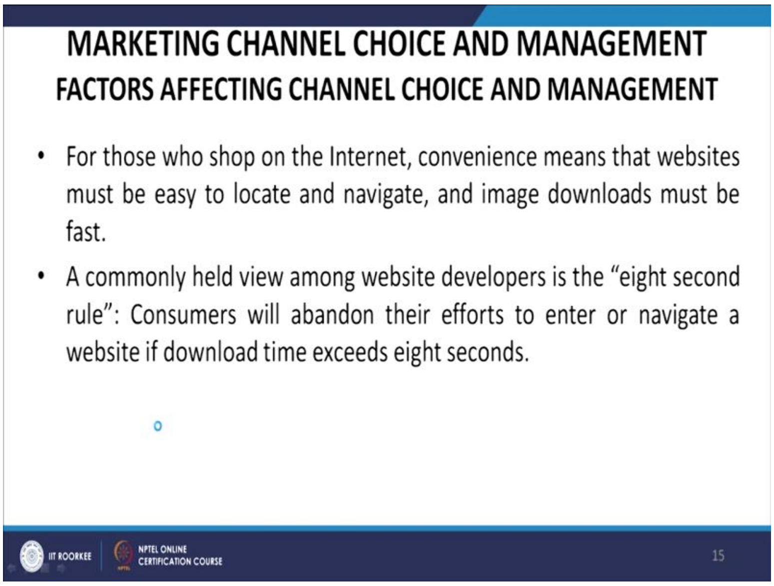

For those who shop on the internet, convenience means that websites must be easy to locate and navigate and image downloads must be fast. A commonly held view among website developers is the "eight second rule": Consumers will abandon their efforts to enter or navigate a website if download time exceeds eight seconds.

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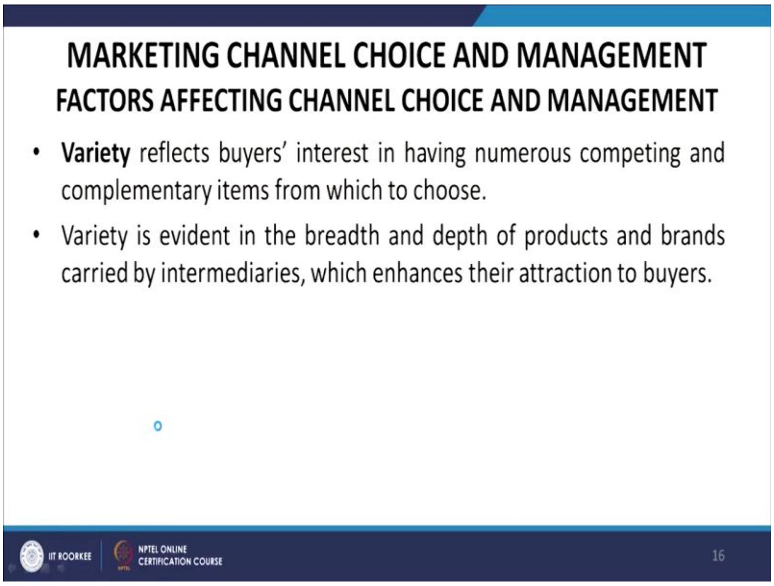

Next is variety that is that reflects buyers' interest having numerous competing and complimentary items from which to choose. Variety is evident in the breadth and depth of products and brands carried by intermediaries which enhances their attraction to buyers.

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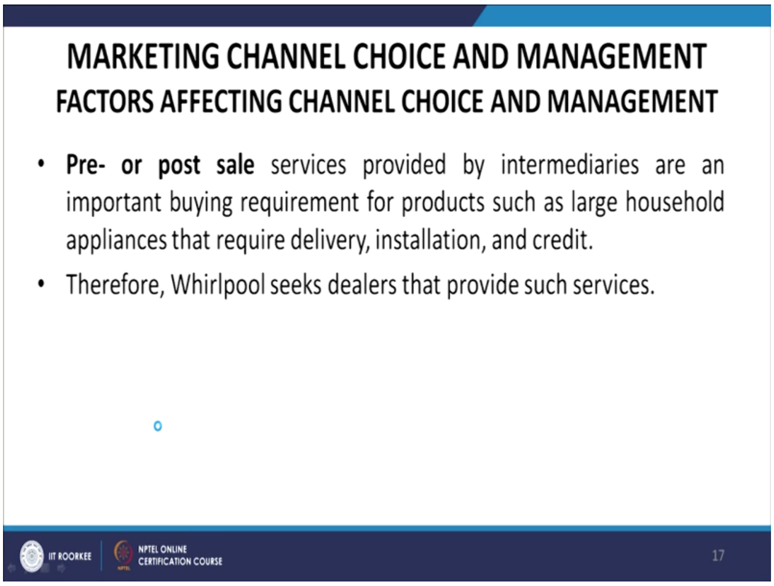

Then we are talking of the pre and the post sales services provided by intermediaries are an important buying requirement for products such as large household appliances that require delivery, installation and credit. Therefore, Whirlpool seeks dealers that provide such services.

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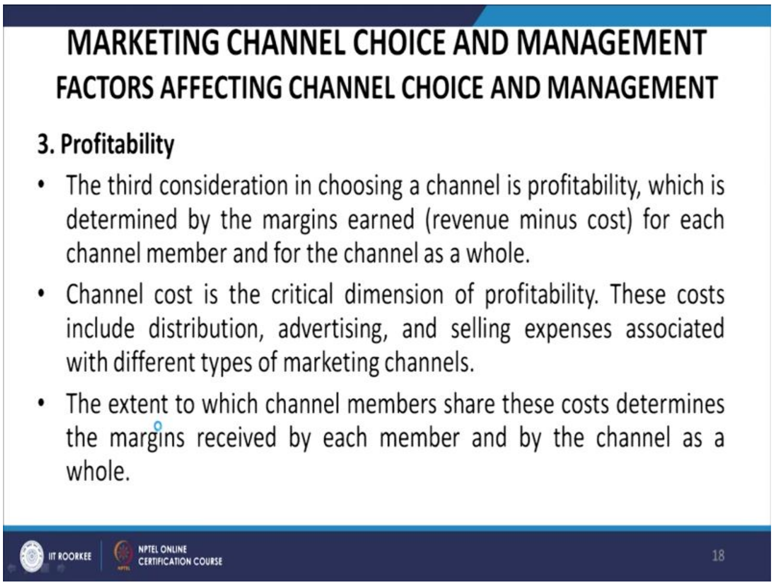

The third issue is that of profitability, that is the third consideration in choosing a channel is profitability which is determined by the margins earned that is revenue minus cost for each channel member and for the channel as a whole. Channel cost is the critical dimension of profitability. These costs include distribution, advertising and selling expenses associated with different types of marketing channels.

The extent to which channel members share their cost determines the margin received by each member and by the channel as a whole. Now, we will talk about how to go about managing channel relationships, their conflicts and cooperation.

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Unfortunately, because channels consist of independent individuals and firms, there is always the potential for disagreement concerning: Who performs which channel functions, how profits are allocated, which products and services will be provided by whom and who makes critical channel related decisions. These channel conflicts necessitates measures for dealing with them.

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Now, what are the sources of conflict in marketing channels? Channel conflict arises when one channel member believes another channel member is engaged in behaviour that prevents it from achieving its goals. So, here this channel member believes that because some other channel members doing something, that will prevent him from achieving its goals. So, there are two types of conflicts that occur in marketing channels: one is the vertical conflict and the second is the horizontal conflict.

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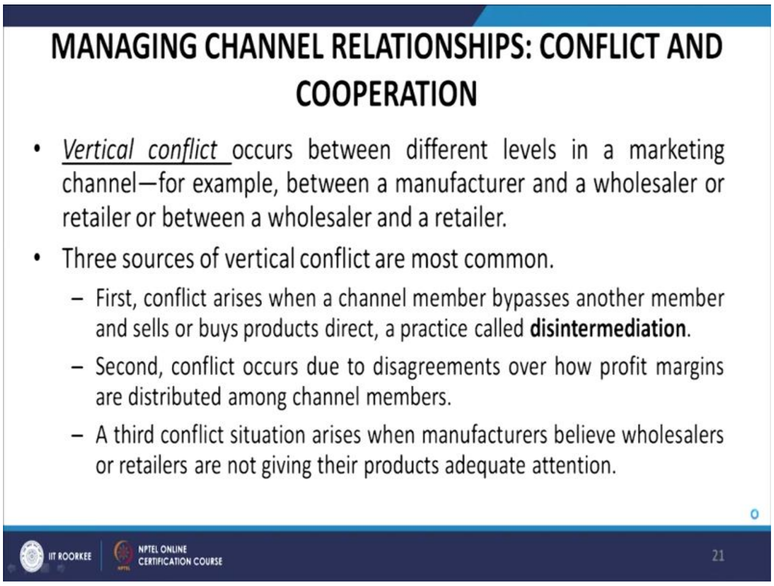

So, what does this vertical conflict means? So, vertical conflict occurs between different levels in a marketing channel for example, between a manufacturer and a wholesaler or retailer or between a wholesaler and a retailer. Now, there are three sources of vertical conflict which are most common.

The first is conflict arise when a channel member bypasses another member and sells or buys product direct, a practice that is called as disintermediation. Second, conflict arises due to disagreement over how profit margins are distributed among the channel members. And, the third conflict situation arises when manufacturers believe wholesalers or retailers are not giving their products adequate attention.

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And when does horizontal conflict occurs? So, it occurs when intermediaries at the same level in a marketing channel, such as between two or more retailers or two or more wholesalers that handle the same manufacturer's brand. And, there are two sources of horizontal conflict. First is horizontal conflict arises when a manufacturer increases its distribution coverage in a geographical area. And, the second is dual distribution causes conflict when different types of retailers they carry the same brands.

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Now, how to go about securing cooperation in marketing channels so, conflict can have destructive effects on the working of a marketing channel. So, it is necessary to secure cooperation among channel members. One means is through the channel captain, a channel member that coordinates, directs and supports other channel members. Channel captains can be producers, wholesalers or retailers.

So, anyone from among them can become a channel captain. P and G assume this rule because it has a strong consumer following in brands such as Tide and Pampers. Therefore, it can set policies or terms that supermarkets will follow.

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Walmart is a retail channel captain because of its strong consumer image, number of outlets and purchasing volume. A firm becomes a channel captain because it is the channel member with the ability to influence the behaviour of other members.

Influence can take four forms. The first is economic influence which arises from the ability of a firm to reward other members given its strong financial position or customer franchise. So, Microsoft Corporation and Walmart have such influence.

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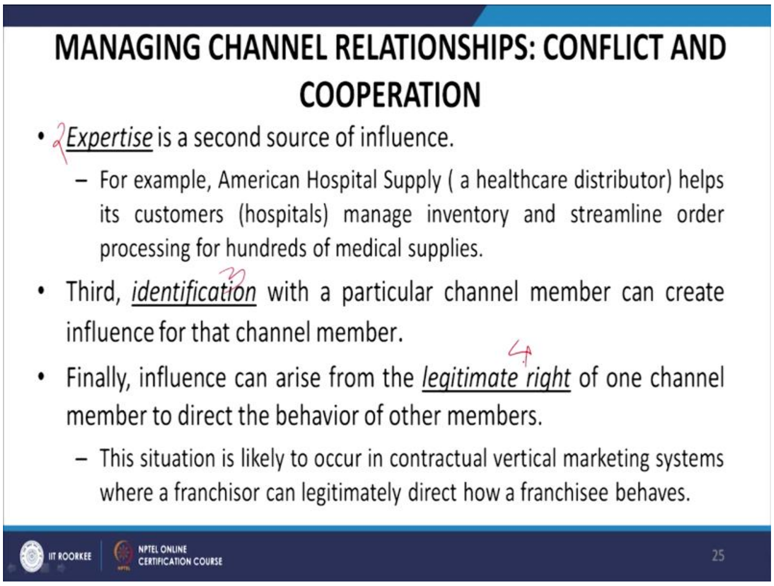

The second influence is expertise that is the second source of influence. For example, American Hospital Supply a healthcare distributor helps its consumers, that is hospitals manage inventory and streamline orders processing for hundreds of medical supplies. The third influence is identification. Identification with a particular channel member can create influence for that channel member.

Finally, influence can arise from the legitimate right of one channel member to direct the behaviour of other members. Finally, influence can arise from the fourth type of right that is the legitimate right of one channel member to direct the behaviour of other members. This situation is likely to occur in contractual vertical marketing systems where a franchisor can legitimately direct how a franchisee behaves.

So, now, these are the four types of influences. The first is economic influence, the second is expertise influence, the third is identification influence and the fourth is the legitimate right. So, that is the fourth type of influence. Now, any member in the channel who can exercise these four types of influences can become the channel captain.

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Now, we will move on to logistics and supply chain management. A marketing channel relies on logistics to make products available to consumers and industrial users. So, we have talked about channels, now let us talk about how this products and services they are moving from one place to another.

Logistics involves those activities that focus on getting the right amount of the right product to the right place at the right time at the lowest possible cost. So, now you see that this logistics, they do the following function. One is the right amount of product, the right products, the right place and at the right time and all this at the lowest possible cost.

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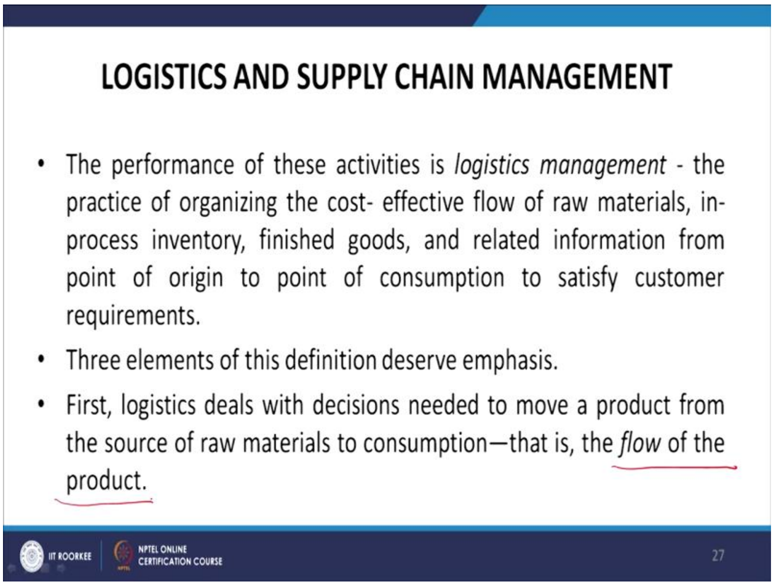

The performance of these activities is logistic management that is the practice of organizing the cost effective flow of raw material in-process inventory, finished goods and related information from point of origin to point of consumption to satisfy customer requirement.

Now, there are three elements of the definition that deserve emphasis. The first element is that the logistic deals with decision needed to move a product from the source of raw material to consumption that is the flow of the product. So, now, we are talking of this flow of this product.

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Second, those decisions have to be cost effective. Third, while it is important to drive down logistic cost, there is a limit. A firm needs to drive down logistic costs as long as it can deliver expected customer service which means satisfying customer requirement. Therefore, the role of management is to see that customer needs are satisfied in the most cost effective manner.

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Now, let us consider this example of Procter and Gamble. So, the company set out to meet consumer needs more effectively by collaborating and partnering with its suppliers and retailers to ensure that the right product reached right stores shelves at the right time and at a lower cost.

. So now, you see how difficult and how complex this logistic function becomes, taking the right product to the right outlet and then also placing it at the right place. The effort was judged a success when, during an 18-months period, P and G’s retail customers posted a dollar 65 million savings in logistic costs and customer services increased. The Procter and Gamble experience is not an isolated incident.

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Now, let us talk about supply chain versus marketing channels. Companies now recognize that getting the right items needed for consumption or production to the right place at the right time in the right condition and at the right cost is often beyond their individual capabilities and controls. So now, you see that the companies they recognize that doing all this is not possible for them and they need someone else to carry out all these functions.

So instead, collaboration, coordination and information sharing among manufacturers, suppliers and distributors are necessary to create a seamless flow of products and services to the customer. So now, collaboration, coordination and information sharing among these people manufacturers, suppliers and distributors.

So, all this for the seamless flow of products and services to the customers; this perspective it is represented in the concept of a supply chain and the practice of supply chain management.

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So, what does this supply chain means? A supply chain refers to the various firms involved in performing the activities required to create and deliver a product or service to consumers or industrial users. It differs from a marketing channel in terms of firms involved. A supply chain includes suppliers that provide raw material inputs to a manufacturer as well as wholesalers and retailers that deliver finished products to the consumer. And, the management process is also different.

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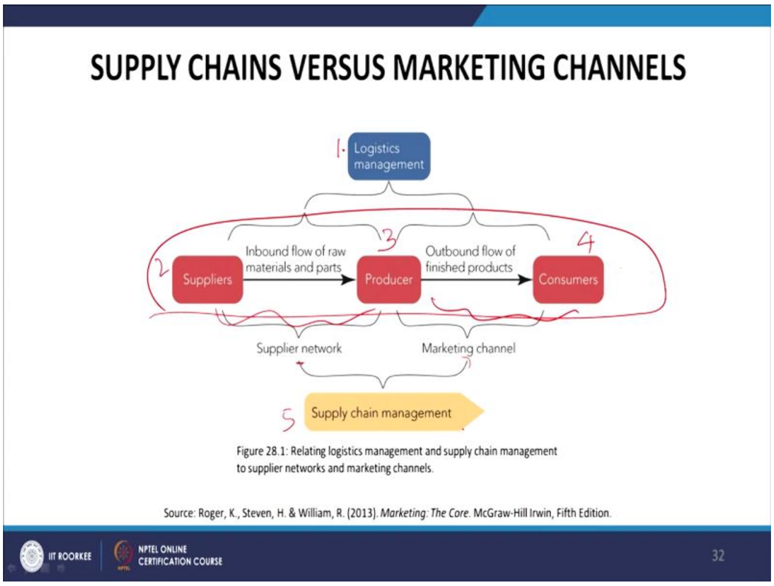

Now, this is the supply chain management. Now, relate this figure 28.1; it is about relating logistic management and supply chain management to supplier network and marketing channels. So now, you see that here we have this logistic management, on the same plane; on the same line we have these suppliers, producers and consumers.

So, logistic management is at 1, while this supply chain management is at 5. Now, you see that suppliers inbound flow of raw material and parts; from the suppliers inbound flow of raw materials and parts goes to the producers. And, from producers' outbound flow of finished goods, finished products then they go to the consumer.

So, this is the supplier network and this is the marketing channel and together they become supplier network and marketing channel, they are termed as supply chain management. While, the management of inbound flow of raw material and part that is between the suppliers and the producers and outbound flow of finished products, that is between the producer and the consumer; that is called as the logistic management.

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So, supply chain management is the integration and organization of information and logistic activities across firms in a supply chain for the purpose of creating and delivering products and services that provide value to the consumers. The relation among marketing channels, logistic management and supply chain management is shown in this figure 28.1.

An important feature of supply chain management is its application of sophisticated information technology that allows companies to share and operate systems for order processing, transportation scheduling and inventory and facility management.

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Now, we will look at the sourcing, assembly and delivering a new car that is the automotive supply chain. All companies are members of one or more supply chain. A supply chain is essentially a series of linked suppliers and customers in which every customer is in turn a supplier to another customer until a finished product reaches the ultimate consumer. Even the simplified supply chain diagram for carmaker shown in figure 28.2 illustrates how complex a supply chain can be.

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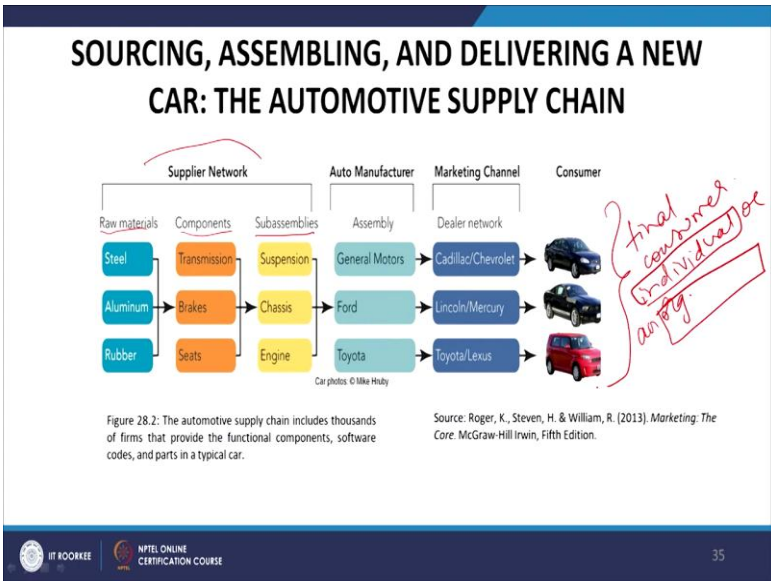

Now, let us look at this figure 28.2. So, it shows the automotive supply chain that includes thousands of firms that provide the functional components, software codes and parts in a typical car. So, now, you see that under this supplier networks, there are these three types of suppliers: raw material suppliers, component suppliers and sub assemblies supplier.

The raw material suppliers they provide, they supply steel, aluminium and rubber. While, the component suppliers they supply the transmission systems, the brakes and the seats. The sub assembly suppliers, they supply the suspension system, the chassis and the engine. Now all these since are supplied to the automotive manufacturer and then he does all the assembly.

So, all these things are provided to General Motors, Ford and Toyota. Then comes the marketing channels, marketing channel here in as we have seen earlier in auto manufacturer they are the dealer network. So, this General Motor or automobile General Motor companies; they provide their cars to Cadillac or Chevrolet dealers. The Ford motor company they provide their Lincoln or Mercury to the Ford dealers.

And, Toyota provides its Toyota and Lexus to the Toyota or Lexus dealers and then these dealers, then they sell it to the final consumers. Now, also see that the final consumer can be an individual or an organization. So, I may be buying it for myself or IIT Roorkee maybe buying it for several purposes. So, these are the final consumers that we are talking about.

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Now, let us look at the link of the supply chain management and marketing strategy. The automotive supplier chain illustration shows how information and logistic activities are integrated and organized across firms to create and deliver a car to you, that are the consumer.

What is missing from this illustration is the linkage between a specific company's supply chain and its marketing strategy. Just as companies have different marketing strategies, they also design and manage their supply chains differently. The goal to be achieved by a firm's marketing strategy determines whether its supply chain needs to be more responsive or efficient in meeting customer requirements.

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Now, let us look at how to go about aligning a supply chain with marketing strategy. There are a variety of supply chain configurations, each of which is designed to perform different tasks well. Marketers today recognize that the choice of a supply chain follows from a clearly defined marketing strategy and involves the following three steps.

So, the first step is to understand the customer: to understand the customer or the consumer, a company must identify the needs of the customer segment they want to serve. These needs such as a desire for a low price or convenience of purchase help a company define the relative importance of efficiency and responsiveness in meeting customer requirement. So, the first thing that is important here is to understand the customers.

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Then another thing that is the need to understand the supply chain, second the company must understand what a supply chain is designed to do well. Supply chains range from those that emphasize being responsive to customers requirement and demand to those that emphasizes efficiency with the goal of supplying products at the lowest possible delivered cost. The third is to harmonize the supply chain with the marketing strategy.

So, now, you see that first we have understood the customer, then we have understood the supply chain. Now, we are trying to harmonize the supply chain with the marketing strategy. So, finally, a company needs to ensure that what the supply chain is capable of doing well is consistent with the target customer's needs and its marketing strategy. So, now, we are integrating these three things: customer needs, marketing strategies and the supply chain.

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If a mismatch exists between what the supply chain does particularly well. So, if there is a mismatch exists between what the supply chain does particularly well and a company's marketing strategy, then the company will need to either redesign the supply chain to support the marketing strategy or change the marketing strategy to support the supply chain.

So, but then in any case this mismatch should not exist. So, either the supply chain needs to be changed to match marketing strategy or marketing strategy has to be changed to match the supply chain. Now, there are two concepts of logistic management in the supply chain. The first is the total logistic cost concept.

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For our purposes total logistic cost includes; expenses associated with transportation, material handling and warehouse, inventory, stock outs that is being out of inventory, order processing and return product handling. Note that many of these costs are interrelated so that changes in one will impact the other. For example, if a firm attempts to reduce its transportation cost by shipping in larger quantities, it will increase its inventory level and then therefore, the inventory carrying cost.

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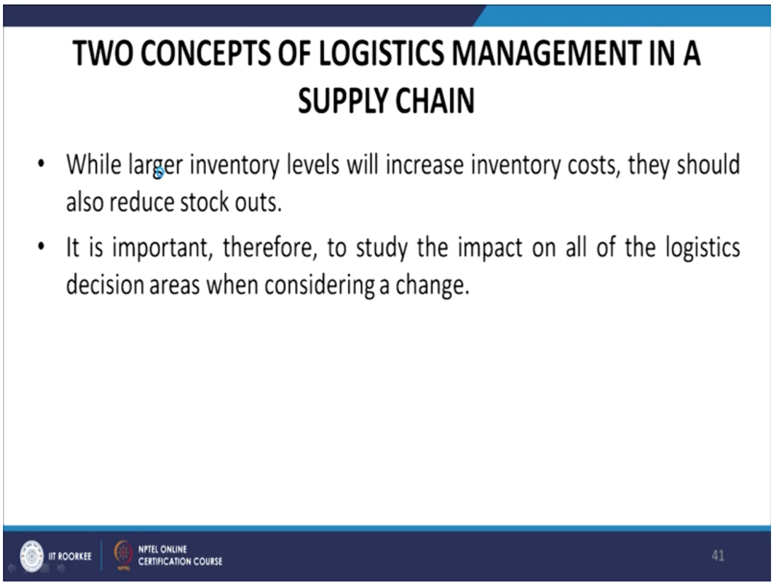

So, while larger inventory levels will increase inventory cost, they should also reduce stock outs. It is important therefore, to study the impact of all of the logistic decision areas when considering a change anywhere; because any change, any single small change will affect at lot many areas.

Another concept to look at is the customer service concept. The first was the total logistic cost concept and the second is the customer service concept.

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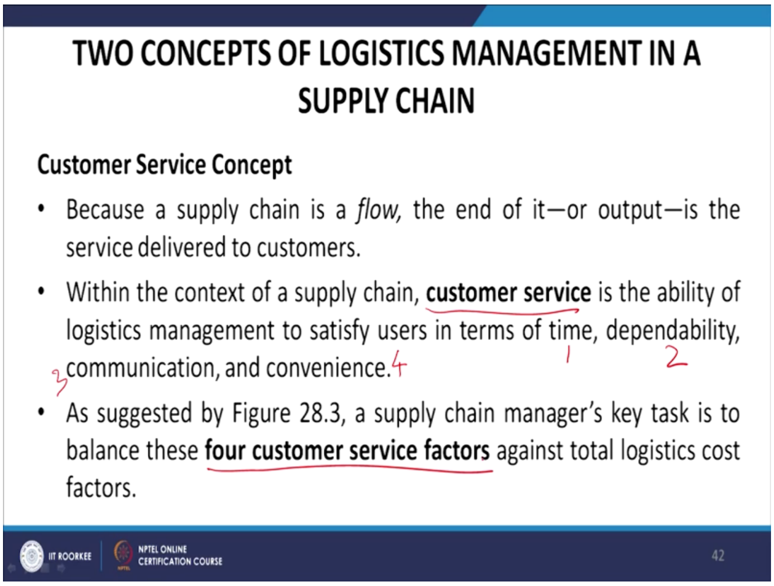

Because, a supply chain is a flow, the end of it or output is the service delivered to the customers. Within the context of a supply chain, customer service is the ability of logistic management to satisfy users in terms of time, dependability, communication and convenience.

So, in this context of supply chain, this customer service is the ability of the logistic management to supply the users. How? In terms of time, dependability, communication and the convenience. As suggested by figure 28.3, a supply chain manager's key task is to balance the four customer service factor against total logistic cost factors. So, we have to look at balancing of these four customer service factors against the total logistic cost factors.

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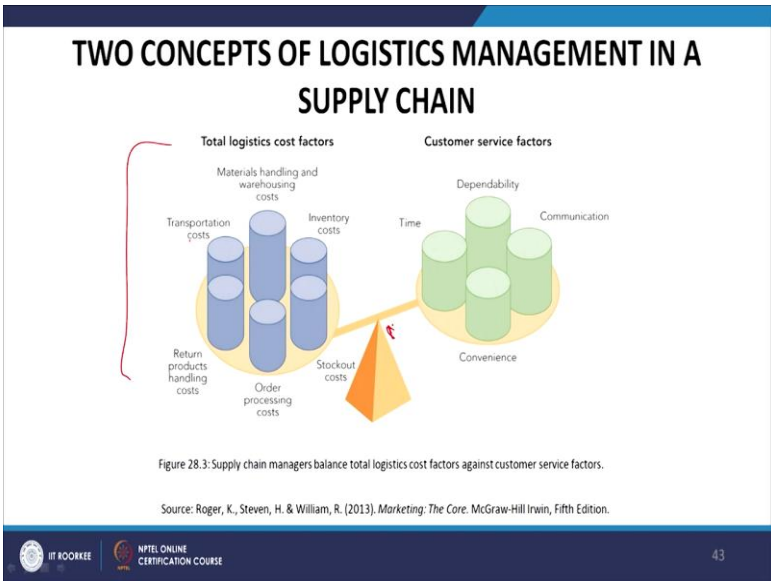

So, now let us look at this total logistic cost factors. So, there is this transportation cost, material handling and warehousing cost, the inventory cost, the return product handling cost, order processing cost and the stock outs; all of them are on the one side of the balance. On the other side are the customer service factors that is the time, dependability, communication and convenience and here we have this balance. So, both these hands are to be balanced at the same time.

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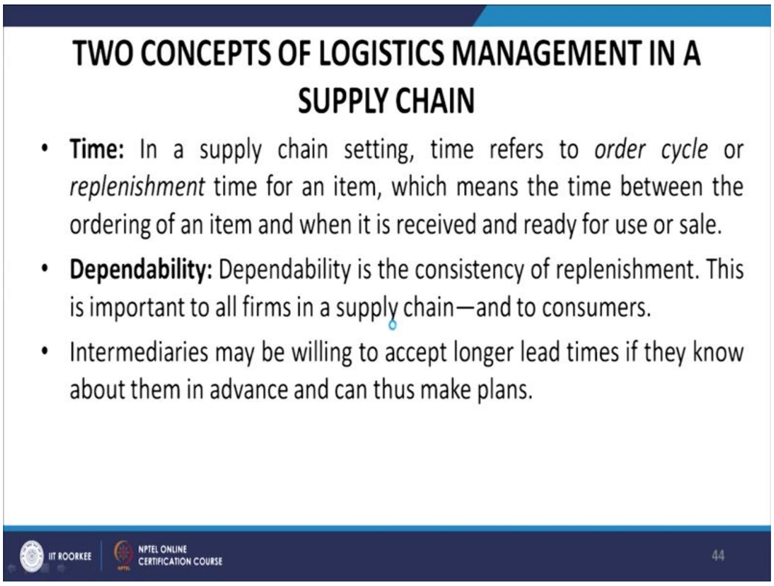

Now, this time in the supply chain settings, time refers to order cycle or replenishment time for an item, which means that the time between the ordering of an item and when it is received and ready for use or sale. Dependability is the consistency of replenishments. This is important to all firms in a supply chain and to the consumers. Intermediaries may be willing to accept longer lead times if they know about them in advance and can thus make plans.

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Communication is two-way links between the buyer and the sellers that helps in monitoring services and anticipate future needs. Status reports on orders are a typical example of communication between the buyer and the seller.

Then the fourth is convenience that is the concept of convenience for a supply chain manager means that there should be a minimum of efforts on the part of the buyer in doing business with the seller.

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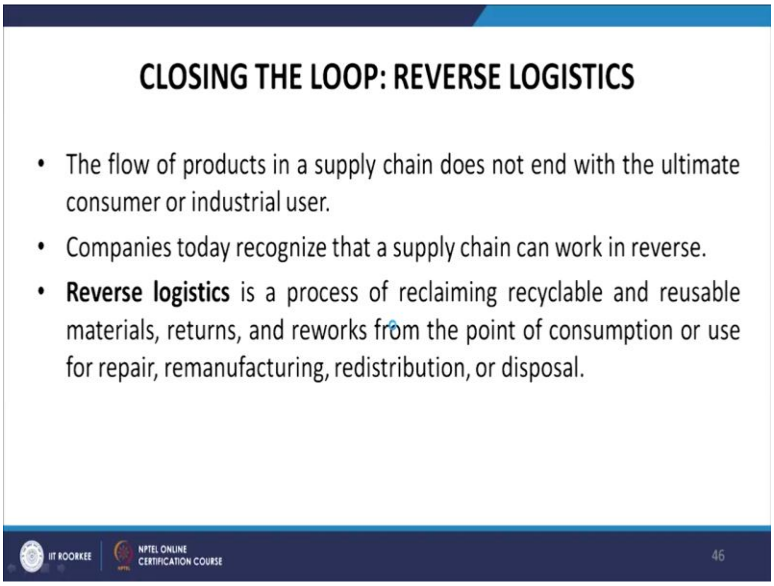

Now, comes the logistic reverse logistics that is giving the defective product back. So, that is called as closing the loop.

The flow of products in a supply chain does not end with the ultimate consumers or industrial users. Companies today recognize that a supply chain can work in reverse also. Reverse logistics is the process of reclaiming recyclable and reusable materials, returns and rework from the point of consumption or use for repair, remanufacturing, redistribution and disposal.

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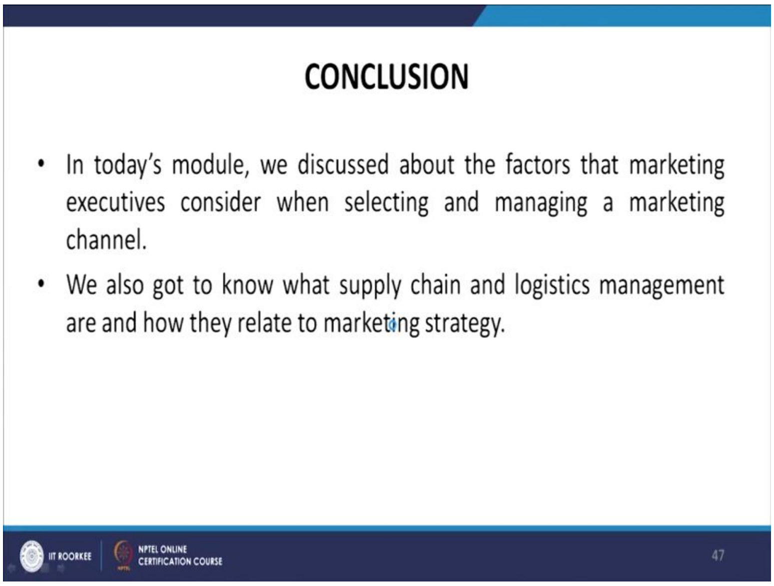

So, to conclude in today's module we have discussed about the factors that marketing executives consider when selecting and managing a marketing channel. We have also got to know what supply chain and logistics management are and how they relate to marketing strategy.

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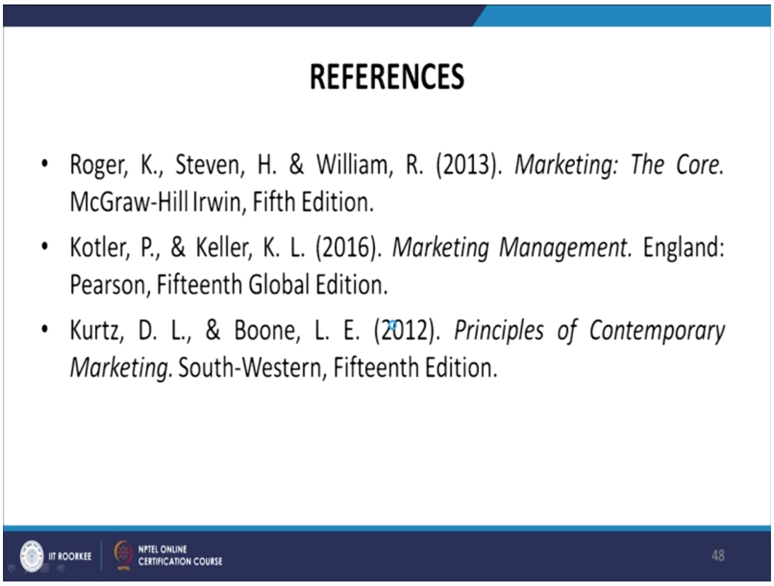

And, these are the three books used for this module.

Thank you.