



*it's good and  
good for you*

# **Chapter 12**

## **Marketing channels: delivering customer value**

# Marketing channels: delivering customer value

## Topic outline

- Supply chains and the value delivery network
- The nature and importance of marketing channels
- Channel behaviour and organisation
- Channel design decisions
- Channel management decisions
- Marketing logistics and supply chain management



# Supply chains and the value delivery network

## Supply chain partners

**Upstream partners** include raw material suppliers, components, parts, information, finances and expertise to create a product or service.

**Downstream partners** include the marketing channels or distribution channels that look toward the customer.



# Supply chains and the value delivery network (Continued)

## Supply chain views

**Supply chain** ‘make and sell’ view includes the firm’s raw materials, productive inputs and factory capacity.

**Demand chain** ‘sense and respond’ view suggests that planning starts with the needs of the target customer, and the firm responds to these needs by organising a chain of resources and activities with the goal of creating customer value.



# Supply chains and the value delivery network (Continued)

## Value delivery network

**Value delivery network** is a network composed of the company, suppliers, distributors and, ultimately, customers who 'partner' with each other to improve the performance of the entire system in delivering customer value.



# The nature and importance of marketing channels

## How channel members add value?

**Intermediaries** offer producers greater efficiency in making goods available to target markets. Through their contacts, experience, specialisation and scale of operations, intermediaries usually offer the firm more than it can achieve on its own.



# The nature and importance of marketing channels (Continued)

## How channel members add value?

- From an economic view, intermediaries transform the assortment of products into assortments wanted by consumers.
- Channel members add value by bridging the major time, place and possession gaps that separate goods and services from those who would use them.



# The nature and importance of marketing channels (Continued)

## How channel members add value?

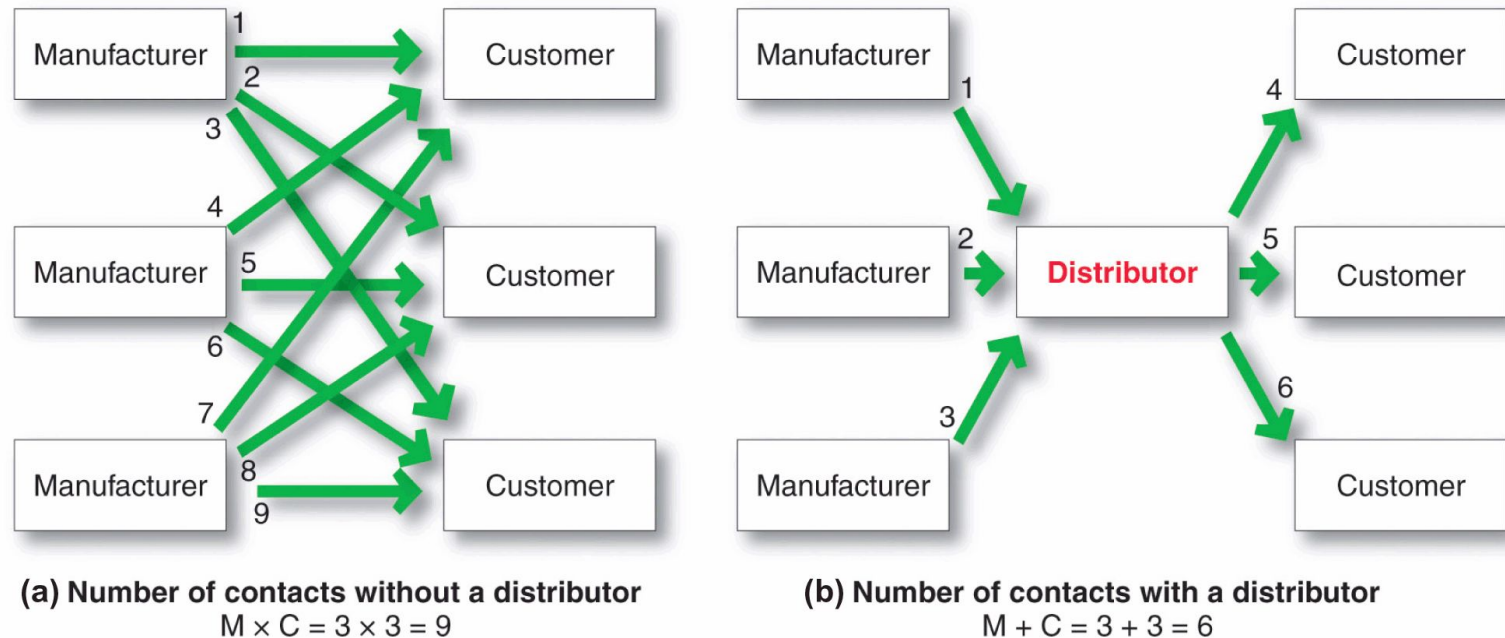


Figure 12.1 How adding a distributor reduces the number of channel transactions



# The nature and importance of marketing channels (Continued)

How channel members add value?



# The nature and importance of marketing channels (Continued)

## Number of channel levels

Connected by types of flows:

- Physical flow of products
- Flow of ownership
- Payment flow
- Information flow
- Promotion flow



# The nature and importance of marketing channels (Continued)

## Number of channel levels

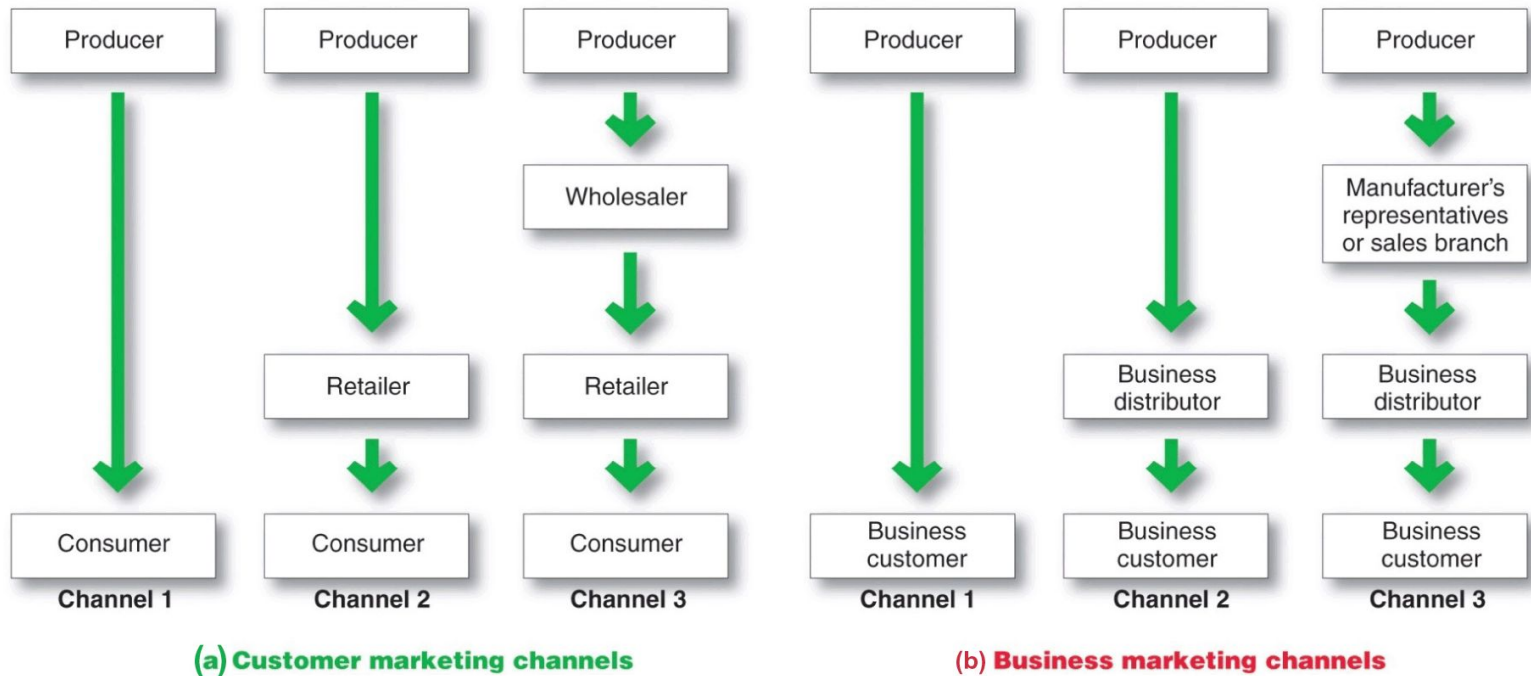


Figure 12.2 Consumer and business marketing channels



# Channel behaviour and organisation

## Channel behaviour

**Marketing channel** consists of firms that have partnered for their common good with each member playing a specialised role.

**Channel conflict** refers to disagreement among marketing channel members on goals, roles and rewards—who should do what and for what rewards.

- Horizontal conflict
- Vertical conflict



# Channel behaviour and organisation (Continued)

## Conventional distributions channels

**Conventional distribution channels** consist of one or more independent producers, wholesalers and retailers, each a separate business seeking to maximise its own profits, even at the expense of profits for the system as a whole.



# Channel behaviour and organisation (Continued)

## Vertical marketing systems

**Vertical marketing systems (VMSs)** provide channel leadership and consist of producers, wholesalers and retailers acting as a unified system and consist of:

- Corporate marketing systems
- Contractual marketing systems
- Administered marketing systems.



# Channel behaviour and organisation (Continued)

## Vertical marketing systems

**Corporate vertical marketing system** integrates successive stages of production and distribution under single ownership.



# Channel behaviour and organisation (Continued)

## Vertical marketing systems

**Contractual vertical marketing system** consists of independent firms at different levels of production and distribution who join together through contracts to obtain more economies or sales impact than each could achieve alone. The most common form is the franchise organisation.





# Channel behaviour and organisation (Continued)

## Vertical marketing systems

**Franchise organisation** links several stages in the production distribution process

- Manufacturer-sponsored retailer franchise system
- Manufacturer-sponsored wholesaler franchise system
- Service firm-sponsored retailer franchise system.



# Channel behaviour and organisation (Continued)

## Vertical marketing systems

**Administered vertical marketing system** has a few dominant channel members without common ownership. Leadership comes from size and power.



# Channel behaviour and organisation (Continued)

## Horizontal marketing system

**Horizontal marketing systems** are when two or more companies at one level join together to follow a new marketing opportunity. Companies combine financial, production or marketing resources to accomplish more than any one company could alone.



# Channel behaviour and organisation (Continued)

**Multichannel distribution systems**

**Hybrid marketing channels**

**Multichannel distribution systems (hybrid marketing channels)** are when a single firm sets up two or more marketing channels to reach one or more customer segments.



# Channel behaviour and organisation (Continued)

## Multichannel distribution system

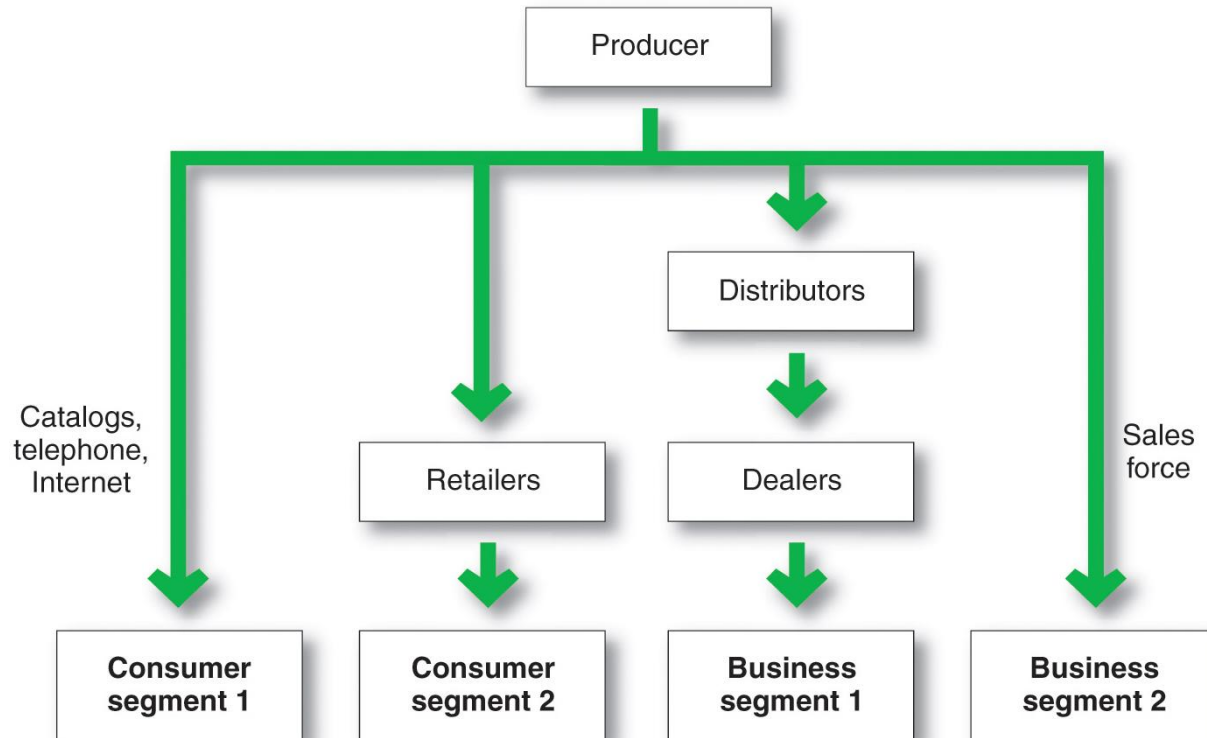


Figure 12.4 Multi-channel distribution system



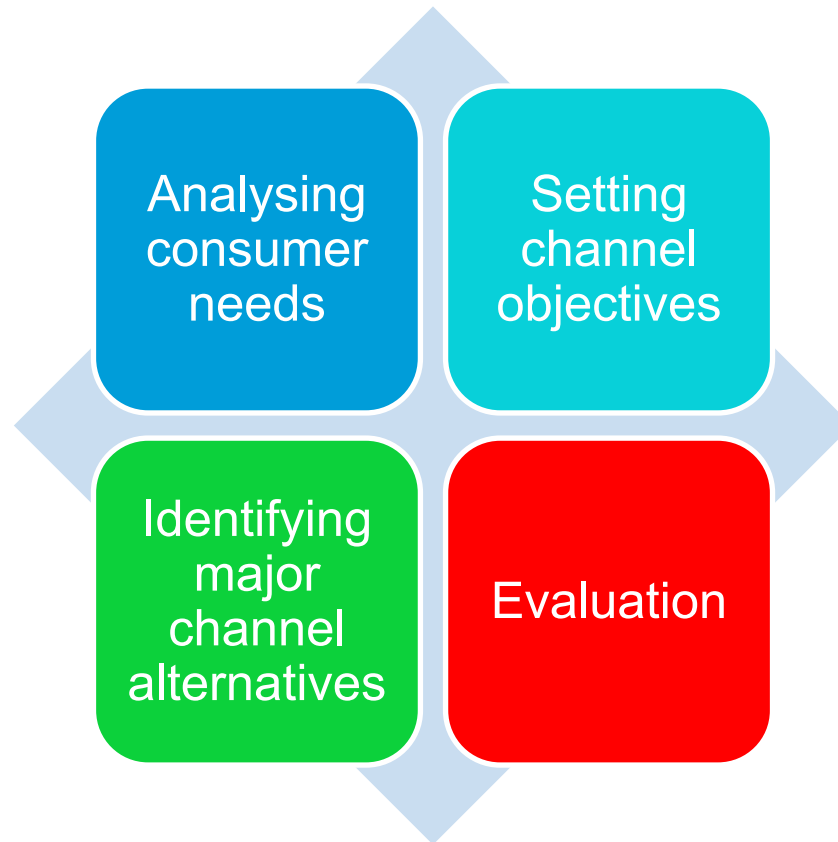
# Channel behaviour and organisation (Continued)

## Changing channel organisation

**Disintermediation** occurs when product or service producers cut out intermediaries and go directly to final buyers, or when radically new types of channel intermediaries displace traditional ones.



# Channel design decisions



# Channel design decisions (Continued)

## Setting channel objectives

- Targeted levels of customer service
- What segments to serve
- Best channels to use
- Minimising the cost of meeting customer service requirements.





# Channel design decisions (Continued)

## Identifying major alternatives

- Types of intermediaries
- Number of marketing intermediaries
- Responsibilities of channel members



# Channel design decisions (Continued)

## Identifying major alternatives

### Intensive distribution

- Candy and toothpaste

### Exclusive distribution

- Luxury automobiles and prestige clothing

### Selective distribution

- Television and home appliance



# Channel design decisions (Continued)

## Evaluating the major alternatives

- Each alternative should be evaluated against:
  - Economic criteria
  - Control
  - Adaptive criteria



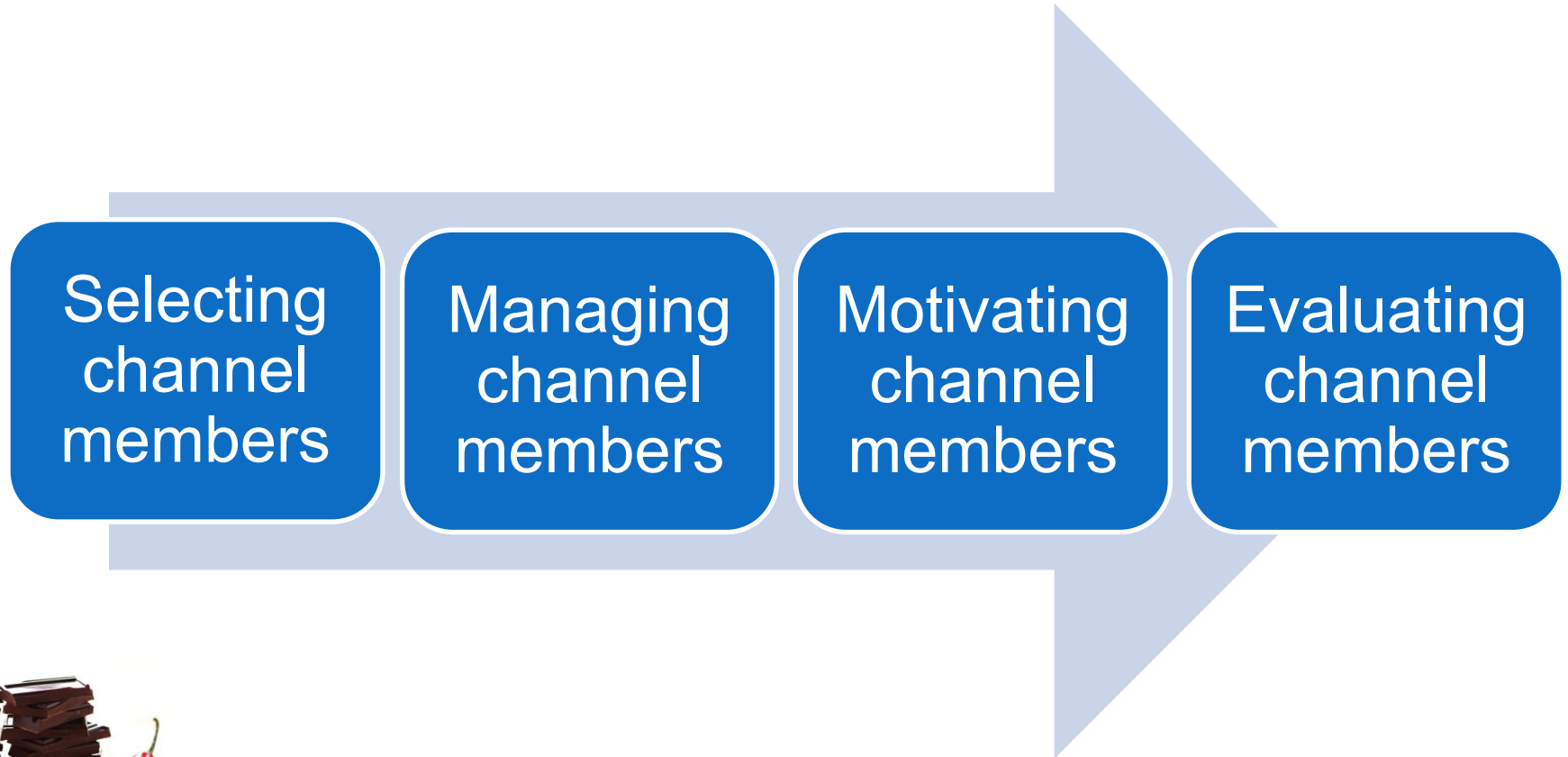
# Channel design decisions (Continued)

## Designing international distribution channels

- Channel systems can vary from country to country.
- Must be able to adapt channel strategies to the existing structures within each country.



# Channel management decisions



# Public policy and distribution decisions

**Exclusive distribution** is when the seller allows only certain outlets to carry its products.

**Exclusive dealing** is when the seller requires that the sellers not handle competitor's products.

**Exclusive territorial agreements** are where producer or seller limit territory.

**Tying agreements** are agreements where the dealer must take most or all of the line.



# Marketing logistics and supply chain management

## Nature and importance of marketing logistics

**Marketing logistics** (physical distribution) involves planning, implementing and controlling the physical flow of goods, services and related information from points of origin to points of consumption to meet consumer requirements at a profit.



# Marketing logistics and supply chain management (Continued)

## Nature and importance of marketing logistics

**Supply chain management** is the process of managing upstream and downstream value-added flows of materials, final goods and related information among suppliers, the company, resellers and final consumers.





# Marketing logistics and supply chain management (Continued)

## Supply chain management

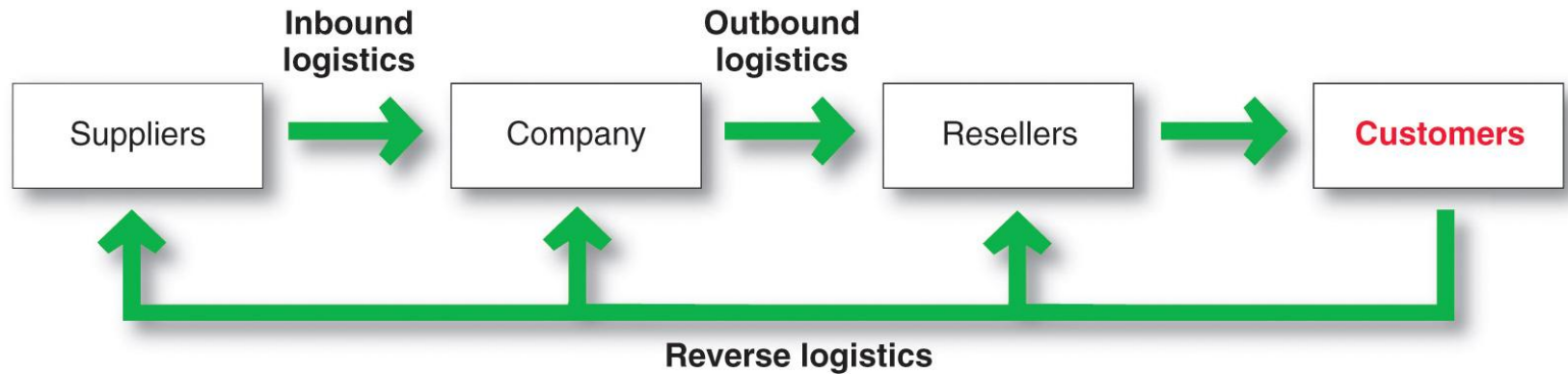


Figure 12.5 Supply chain management



# Marketing logistics and supply chain management (Continued)

## Major logistics functions

Warehousing

Inventory  
management

Transportation

Logistics  
information  
management



# Marketing logistics and supply chain management (Continued)

## Warehousing decisions

- How many?
- What types?
- Where to locate?
- Warehouses
- Distribution centres



# Marketing logistics and supply chain management (Continued)

## Inventory management

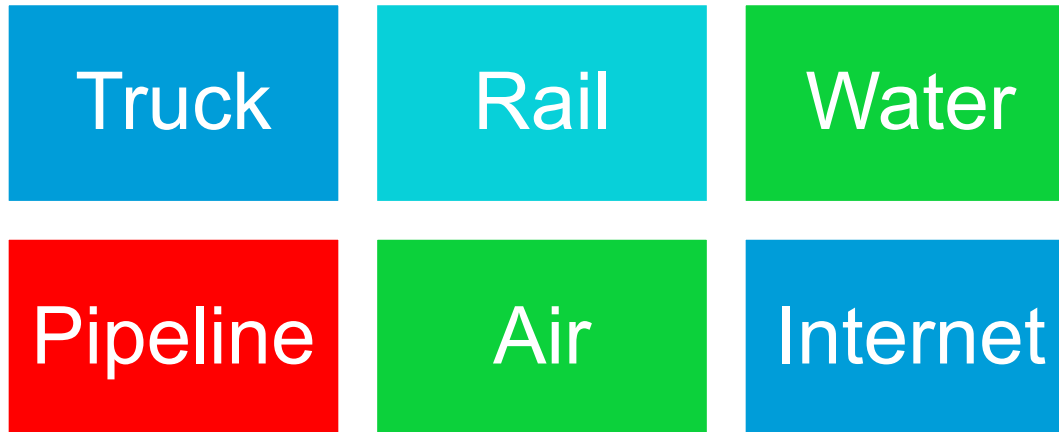
- Just-in-time systems
- RFID
  - Knowing exact product location
- Smart shelves
  - Placing orders automatically.



# Marketing logistics and supply chain management (Continued)

## Major logistics functions

**Transportation** affects the pricing of products, delivery performance and condition of the goods when they arrive.



# Marketing logistics and supply chain management (Continued)

## Logistics information management

**Logistics information management** is the management of the flow of information, including customer orders, billing, inventory levels and customer data.

- Electronic data interchange (EDI)
- Vendor-managed inventory (VMI)



# Marketing logistics and supply chain management (Continued)

## Integrated logistics management

**Integrated logistics management** is the recognition that provide customer service and trimming distribution costs requires teamwork internally and externally.



# Marketing logistics and supply chain management (Continued)

## Integrated logistics management

**Third-party logistics** is the outsourcing of logistics functions to third-party logistics providers (3PLs).

