

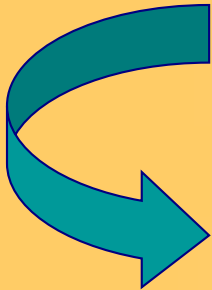
Chapter 3

The Environment of Marketing Channels



The Environment

Consists of all external uncontrollable factors within which marketing channels exist

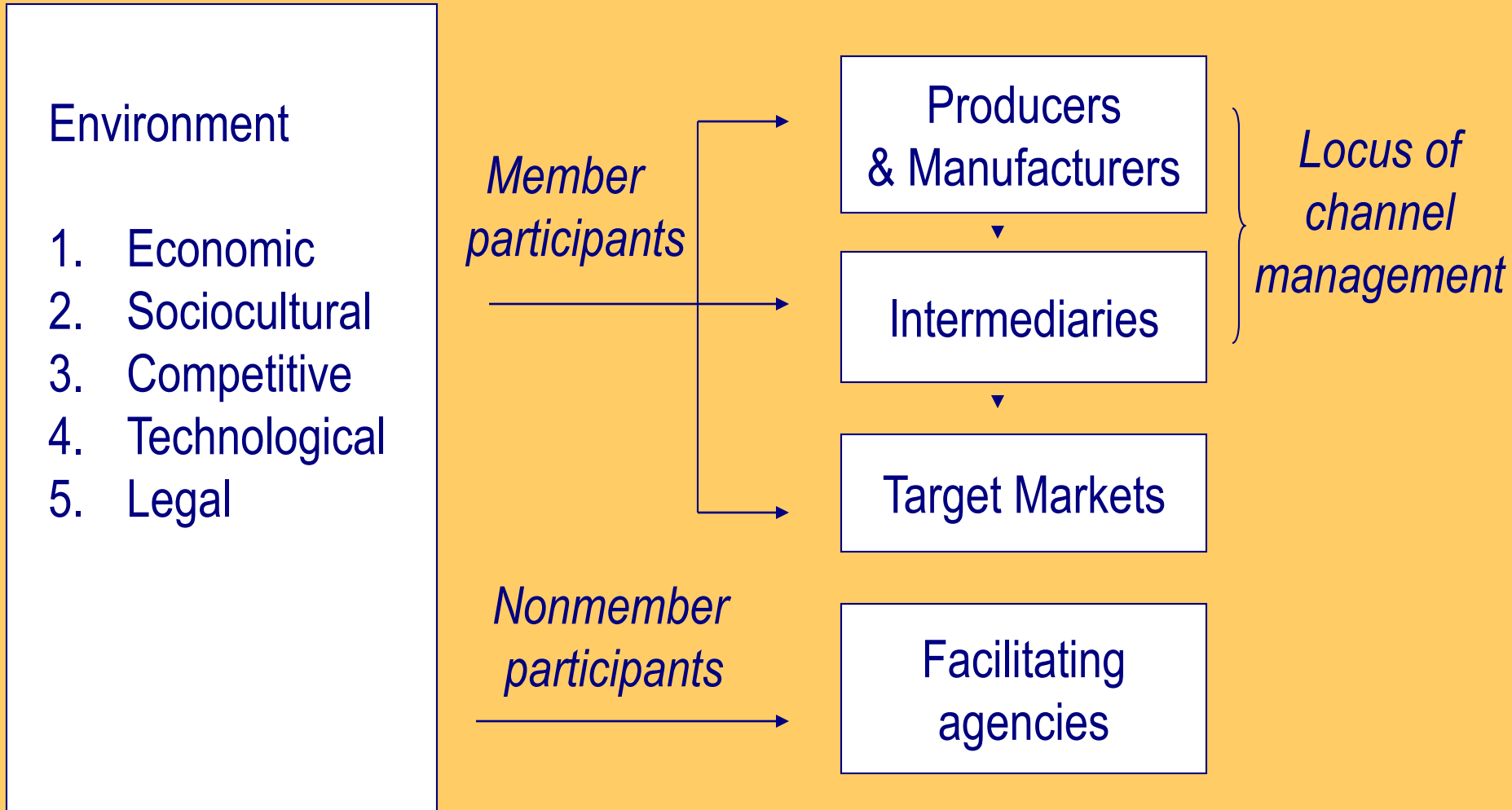


Affects channel members *and* nonmembers, such as facilitating agencies

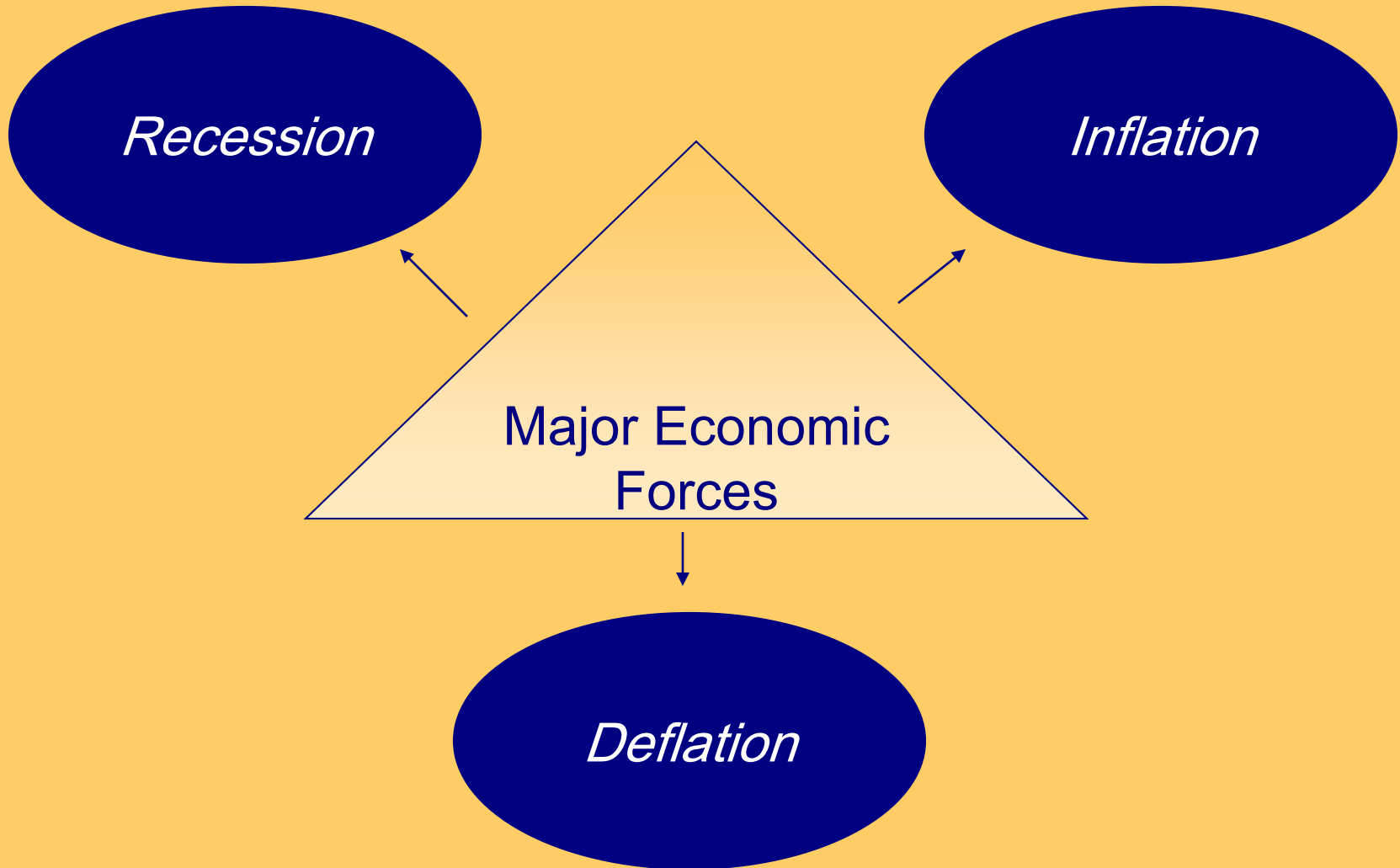
=

All channel participants

The Environment



The Economic Environment



Recession



Consumer
and/or
Corporate
spending

=

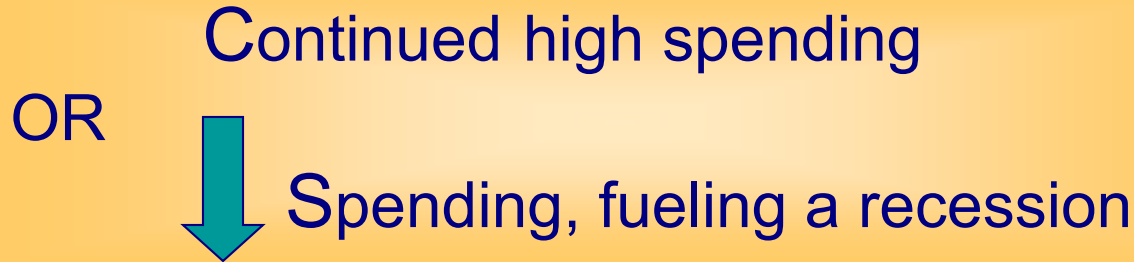
Reduced sales
volume

Reduced
profitability

Firms caught with
large
inventories

*Channel
strategy:*

*Manufacturers provide channel
member support by financing
high inventory costs*



Possible channel strategy:

- Reduce manufacturer's product mix from higher-price to lower-price products
- Reduce inventory burden on members with:
 - Streamlined product line
 - Faster order processing & delivery
 - Higher inventory turnover through stronger promotional support

Deflation



Prices

Challenge:

Pass cost-induced price increases through channel when built-in cost pressures from labor contracts were negotiated several years earlier

Other Economic Factors

1.  Real interest rates

=

 Demand

 Costs

2. Strong U.S. Dollar



Difficult to sell products through channel members

=

U.S. products less competitive

The Competitive Environment

Global in scope



Types of Competition

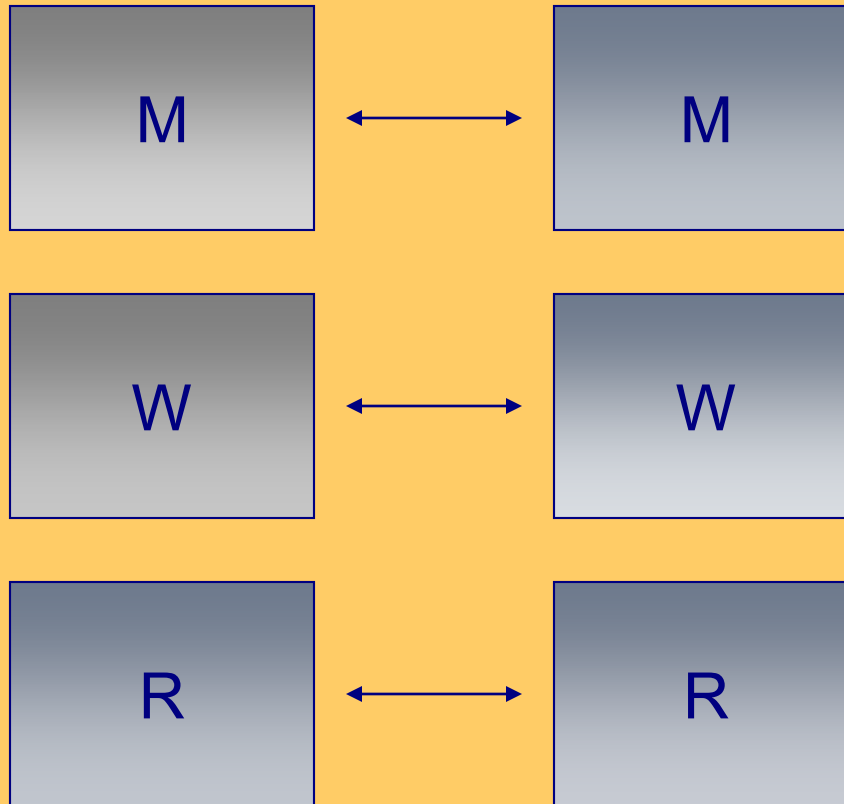
Horizontal

Vertical

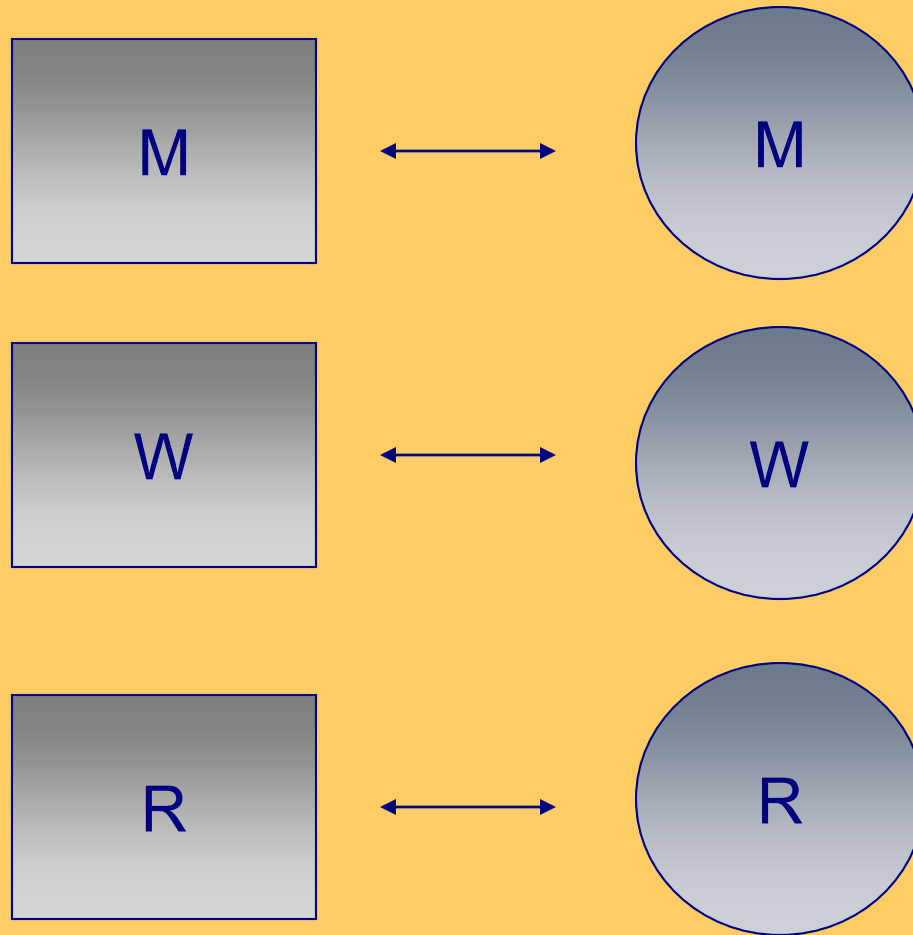
Intertype

Channel System

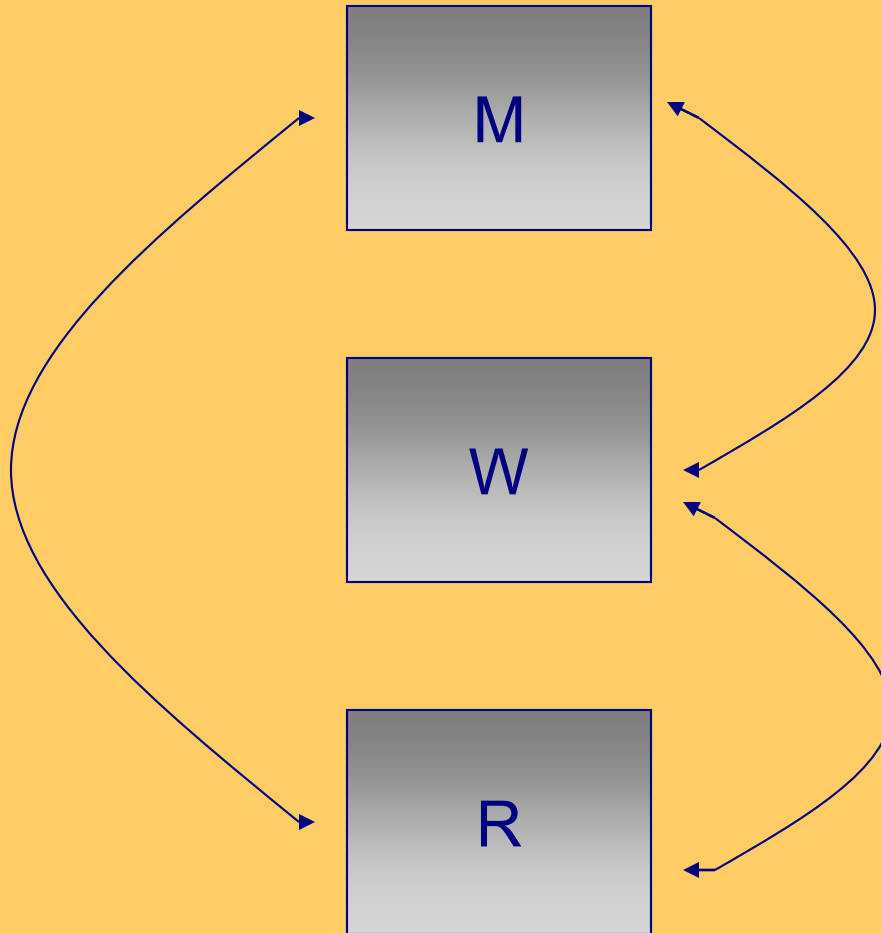
Horizontal Competition



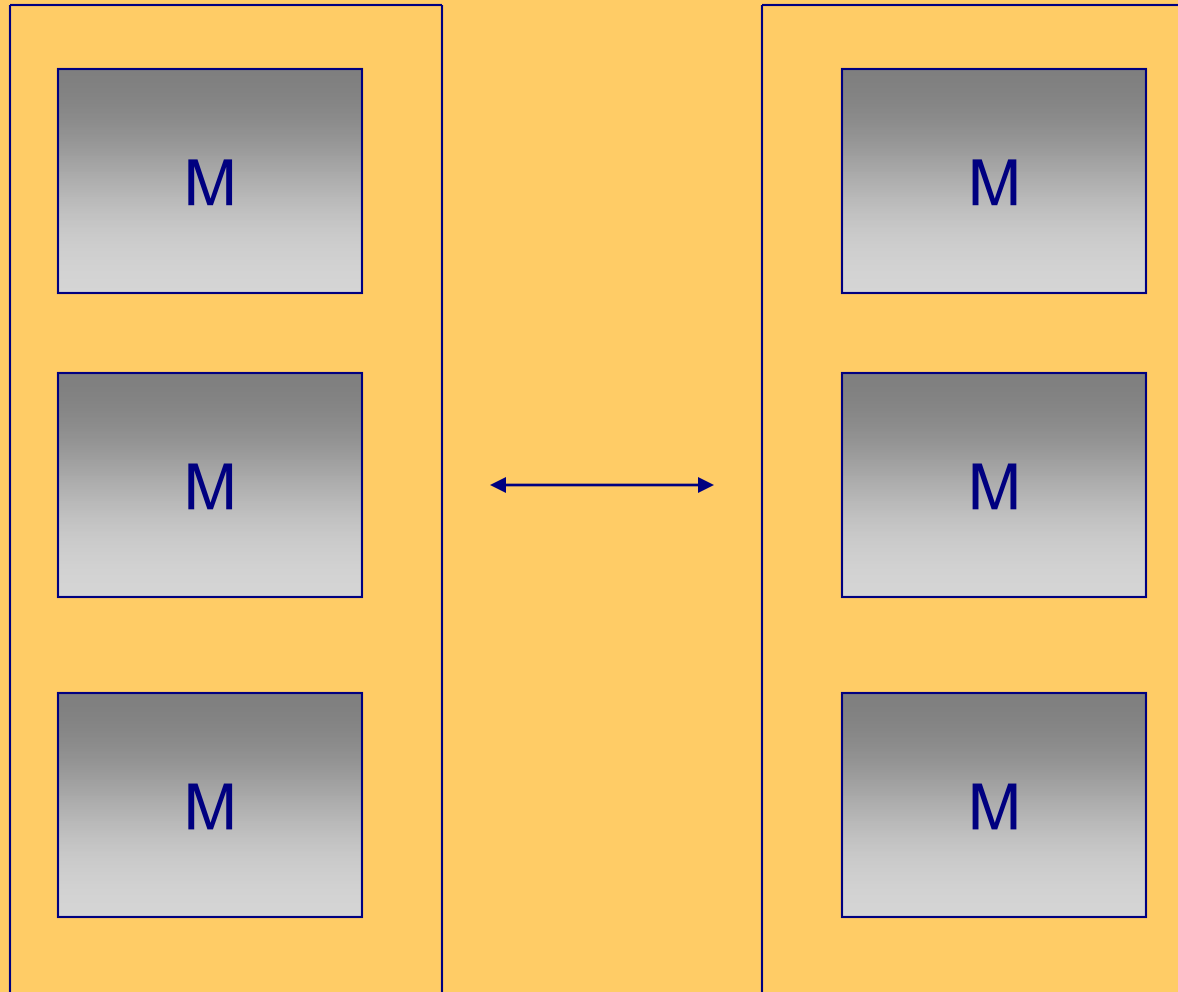
Intertype Competition



Vertical Competition



Channel System Competition



The Sociocultural Environment

Pervades all aspects of a society

Influences both national and international marketing channels

Influences wide variations among channel structures worldwide

Sociocultural Developments

Population Age
Patterns



U.S. pop. Becoming
both younger &
older

Ethnic Mix



of minority-owned
businesses

Educational Trends



Levels = people
more demanding
Smaller & more varied

Family or Household
Structure

Role of Women



= changing
shopping needs

The Technological Environment

Scanners

Computerized inventory management
& Portable computers



Help retailers & wholesalers closely monitor success or failure of products they handle

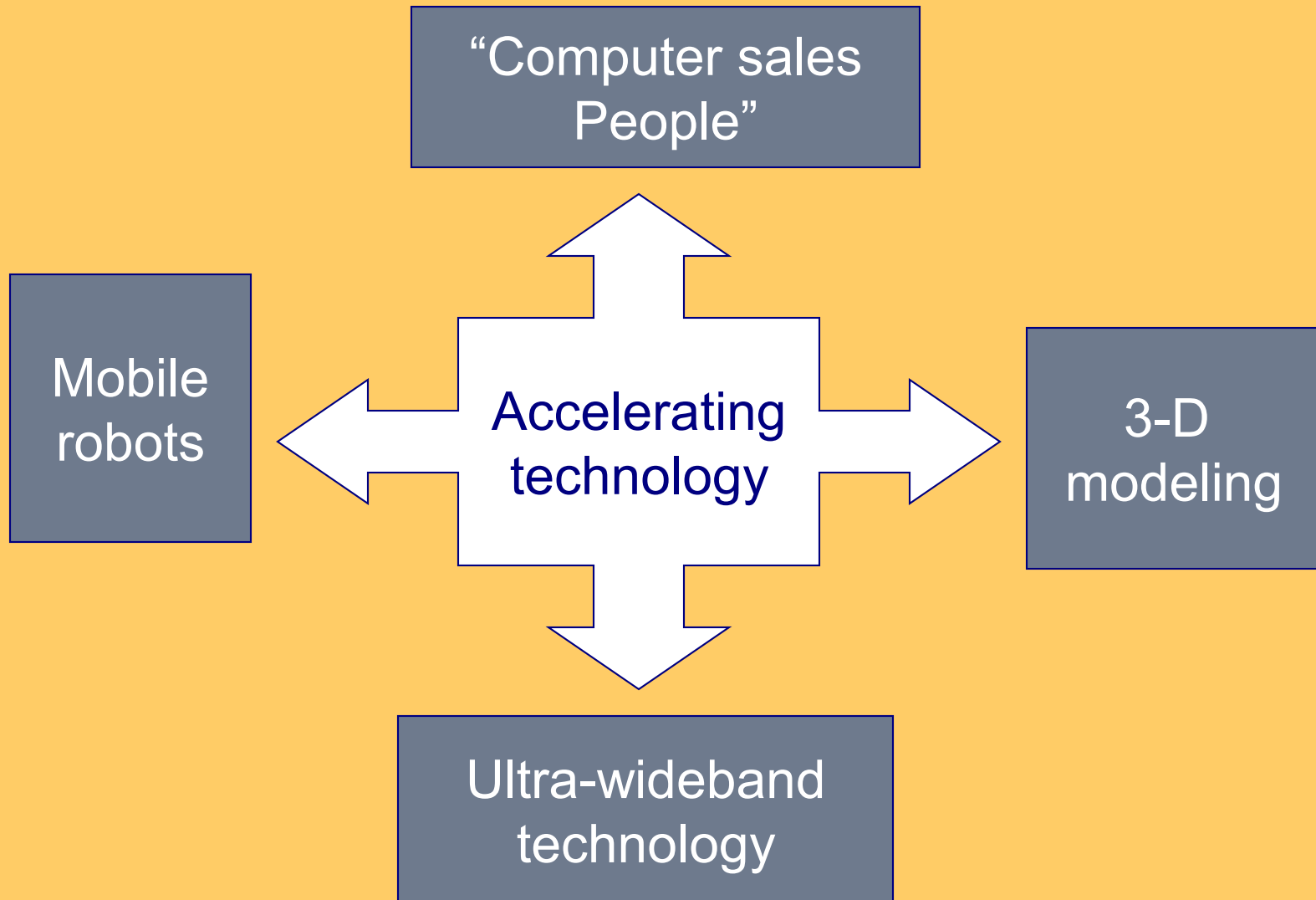
The Technological Environment

EDI - Electronic
Data
Interchange

- Links together channel information systems
- Provides real-time responses
- Enhanced by Internet

*= Enhanced
Distribution
Efficiency*

The Technological Environment



The Legal Environment

The set of laws that impact marketing channels



- Continually evolving
- Affected by changing values, norms, politics, & precedents
- Knowledge of basics helps channel manager avoid serious & costly legal problems

Legislation Affecting Marketing Channels

Sherman Antitrust Act

1890; Fundamental antimonopoly law

Public welfare best served through competition

Clayton Act

1914; Strengthen Sherman Antitrust Act

Prohibits specific practices among competing firms

Federal Trade Commission Act

1914; Established FTC

Power to investigate & enforce

Legislation Affecting Marketing Channels

Robinson-Patman Act

1936; Amendment to Clayton Act

Prohibits price discrimination

Allows price differentials to different customers
under specific circumstances

Celler-Kefauver Act

1950; Amendment to Clayton Act

Prohibits vertical mergers & acquisitions

Legal Issues in Channel Management

- *Dual Distribution, or multi-channel distribution*

Producer or manufacturer uses 2 or more different channel structures for distributing the same product

- *Exclusive Dealing*

Supplier requires its channel members to sell only its products or to refrain from selling directly to competitive suppliers

- *Full-Line Forcing*

Supplier requires channel members to carry a full-line of its products in order to sell any particular products in supplier's line

Legal Issues in Channel Management

- *Price Discrimination*

Supplier sells at different prices to the same class of channel members

- *Price Maintenance*

Supplier dictates prices charged by channel members to their customers

- *Refusal to Deal*

Supplier has right to refuse to deal with whomever they want as channel members

Legal Issues in Channel Management

- *Resale Restrictions*

Manufacturer attempts to stipulate to whom and in what geographical market channel members may resell the manufacturer's products

- *Tying Agreements*

Supplier sells a product to a channel member on condition that the channel member also purchase another product

- *Vertical Integration*

Firm owns and operates organizations at other levels of the distribution channel