

Chapter 6

Designing the Marketing Channel



Channel Design

Channel Design:

Decisions involving the development of new marketing channels either where none had previously existed or to the modification of existing channels

Channel Design

Distinguishing points of the definition include:

1. A decision made by the marketer
2. The creation or modification of channels
3. The active allocation of distribution tasks in an attempt to develop an efficient structure
4. The selection of channel members
5. A strategic tool for gaining a differential advantage

Who Engages in Channel Design?



Firms

- Producers, manufacturers, service providers, franchisors
- Look down the channel toward the market



Wholesalers

- Look both up and down the channel



Retailers

- Look up the channel to secure suppliers

Channel Design Paradigm

1. Recognize the need for channel design decision

2. Set & coordinate distribution objectives

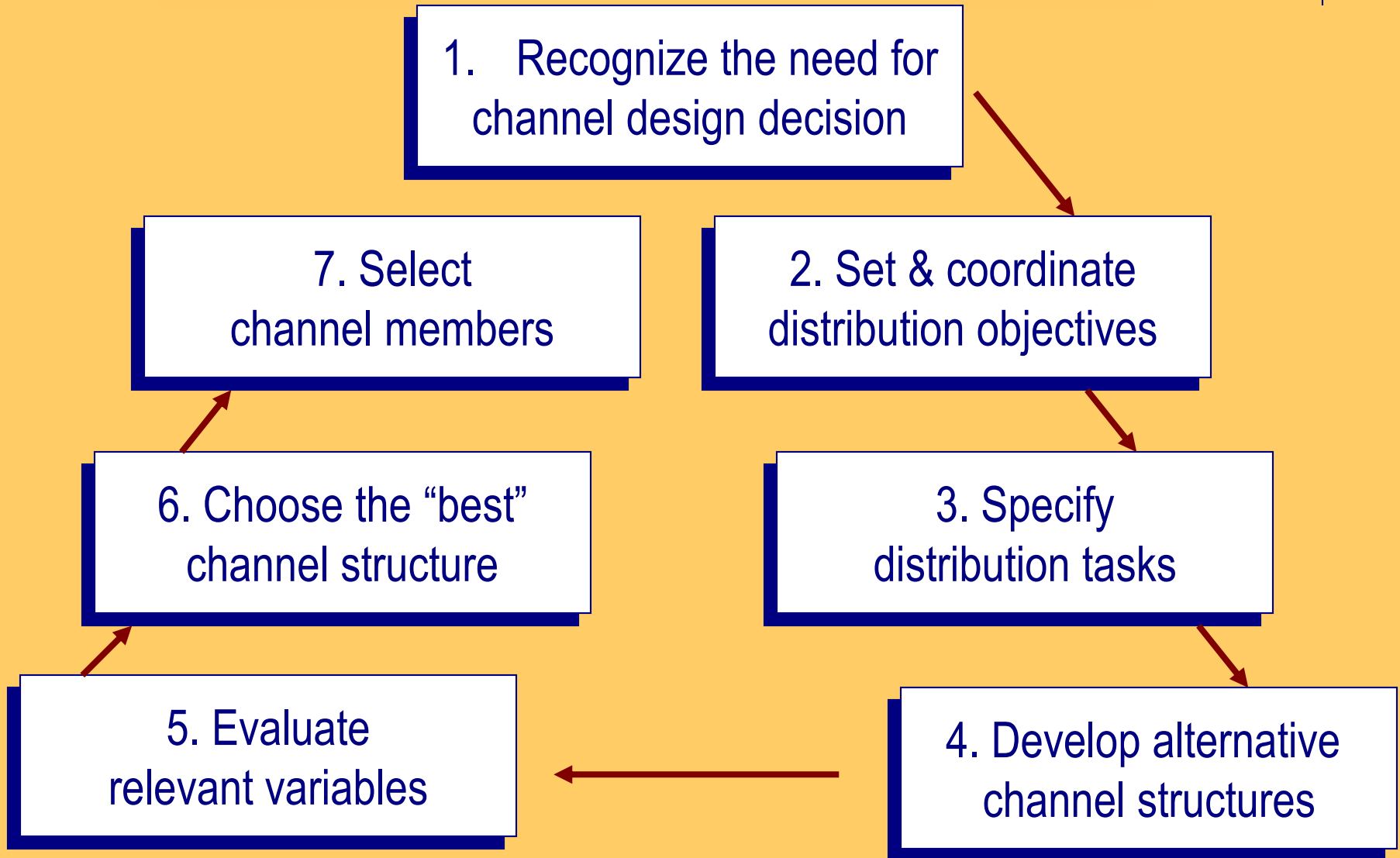
3. Specify distribution tasks

4. Develop alternative channel structures

5. Evaluate relevant variables

6. Choose the "best" channel structure

7. Select channel members



When to Make a Channel Design Decision

- Developing a new product or product line
- Aiming an existing product at a new market
- Making a major change in some other component of the marketing mix
- Establishing a new firm
- Adapting to changing intermediary policies that may inhibit attainment of distribution objectives
- Dealing with changes in availability of particular kinds of intermediaries
- Opening up new geographic marketing areas
- Facing the occurrence of major environmental changes
- Meeting the challenge of conflict or other behavioral problems
- Reviewing and evaluating

Distribution Objectives

Setting distribution objectives requires knowledge of which, if any, existing objectives & strategies may impinge on these distribution objectives.

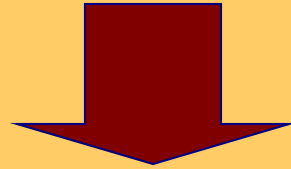


The Need for Congruency



Distribution Tasks

Outlining distribution tasks is specific and situationally dependent on the firm.



For example: Distribution tasks for a manufacturer of consumer products differs from those for products sold in industrial markets.



Distribution tasks are a function of the distribution objectives and the types of firms involved.

Channel Structure Dimensions

1. Number of levels in the channel

2. Intensity at the various levels

Allocation Alternatives

3. Types of intermediaries at each level

Number of Levels

- Range from two to five or more
- Number of alternatives is limited to two or three choices
- Limitations result from the following factors:
 - Particular industry practices
 - Nature & size of the market
 - Availability of intermediaries

Intensity at the Various Levels

Relationship between the intensity of distribution dimension & number of retail intermediaries used in a given market area

Intensity Dimension

Intensive

Selective

Exclusive

Numbers of Intermediaries (retail level)

Many

Few

One

Types of Intermediaries

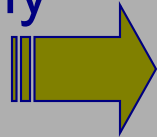
- Numerous types
- Manager's emphasis on types of distribution tasks performed by these intermediaries
- Watch emerging types
 - Electronic online auction firms (eBay)
 - Industrial products sold in B2B markets (Chemdex, Converge.com)

Variables Affecting Channel Structure

Categories of Variables

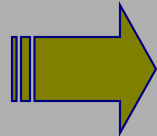
1. Market Variables
2. Product Variables
3. Company Variables
4. Intermediary Variables
5. Environmental Variables
6. Behavioral Variables

Market Geography



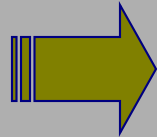
Location, geographical size,
& distance from producer

Market Size



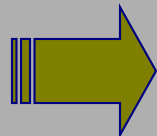
Number of customers in a
market

Market Density



Number of buying units
(consumers or industrial firms)
per unit of land area

Market Behavior



Who buys, & how, when, and
where customers buy

Product Variables

Bulk & Weight

Perishability

Unit Value

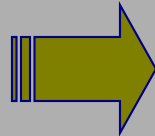
Degree of Standardization

Technical versus Nontechnical

Newness

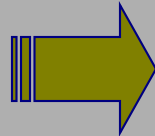
Company Variables

Size



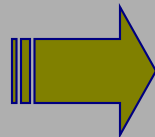
The range of options is relative to a firm's size

Financial Capacity



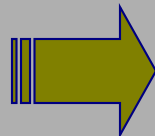
The greater the capital, the lower the dependence on intermediaries

Managerial Expertise



Intermediaries are necessary when managerial experience is lacking

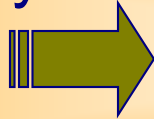
Objectives & Strategies



Marketing & objectives may limit use of intermediaries

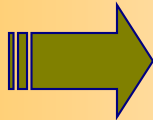
Intermediary Variables

Availability



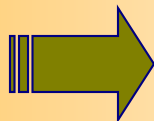
Availability of intermediaries influences channel structure.

Cost



Cost is always a consideration in channel structure.

Services



Services that intermediaries offer are closely related to the selection of channel members.

Environmental Variables

Economic

Competitive

Sociocultural

*The impact of environmental forces is
a common reason for making
channel design decisions.*

Technological

Legal

Behavioral Variables

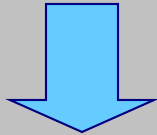
Develop congruent roles for channel members.

Be aware of available power bases.

Attend to the influence of behavioral problems that can distort communications.

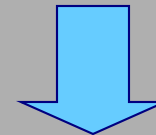
Heuristics in Channel Design

Benefit



Fairly simple prescriptions
for channel structure

Limitation



Mostly useful as rough
guide to decision
making

Choosing an Optimal Channel Structure

Why is choosing an optimal channel structure not possible?

1. Management is incapable of knowing all possible alternatives.
2. Precise methods for calculating the exact payoffs associated with each alternative structures do not exist.



BUT

Techniques exist for developing more exact methods.

Approaches for Choosing Channel Structure

- “Characteristics of Goods & Parallel Systems” Approach
- Financial Approach
- Transaction Cost Analysis Approach
- Management Science Approaches
- Judgmental-Heuristic Approach

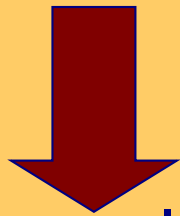
Judgmental-Heuristic Approaches

IF

Management's ability to
make sharp judgments is high

+

Good empirical data on costs
and revenues is available



It's possible to make highly satisfactory channel-
choice decisions using judgmental-heuristic
approaches