

Part 1

Marketing Channel Systems

Chapter 1

Marketing Channel Concepts



Objectives

You will learn about:

- The growing importance of marketing channels
- The definition of marketing channels
- How marketing channels relate to strategic variables in the marketing mix
- The flows in the marketing channels and their relationship to channel management
- The principles of specialization, division of labor, and contactual efficiency
- The difference between the concepts of channel structure and of ancillary structure

Why the growing importance of marketing channels?



1. The explosion of information technology and E-commerce
2. A greater difficulty in gaining a sustainable competitive advantage
3. The growing power of distributors, especially retailers in marketing channels
4. The need to reduce distribution costs

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The prediction:

Disintermediation — reduction of number of intermediaries

The reality:

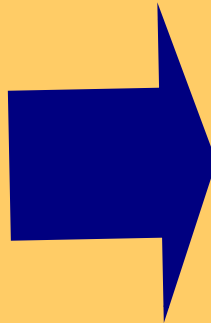
Reintermediation — evolution of a new type of intermediary



Yahoo!
eBay
Amazon.com

1. The explosion of information technology and E-commerce
 2. **A greater difficulty in gaining a sustainable competitive advantage**
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-

Sustainable
competitive
advantage



**Place (distribution), or Marketing
Channel Strategy**



*Potential for gaining
competitive advantage
because place is more
difficult for competitors
to copy*

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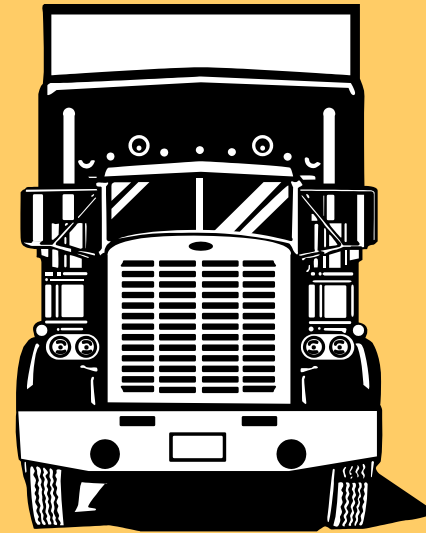
Power retailers as **gatekeepers** of consumer markets



Act as buying agents for *customers* rather than
as selling agents for manufacturers

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Marketing channels are the most recent target for reducing distribution costs.



The focus is on channel *structure* and *management*.

What is a marketing channel?

Outside the firm

Firm involved in negotiatory functions

Management's involvement in
the process

**External contactual organization that management
operates to achieve its distribution objectives**

Goals that change, causing variations
in contactual organization & the way
in which
management operates it

What is a channel manager?



Anyone in a firm or organization who is involved in marketing channel decision making



How does marketing channel strategy relate to the rest of the marketing mix?

Marketing Mix or <i>the four Ps</i>	<i>Challenges</i>
Product	Limited ability to gain and hold competitive advantage
Price	Price wars erode profitability & provide unstable basis for sustaining competitive advantage
Promotion	Expensive and short-lived
Place (Distribution)	Marketing channels support & enhance other Ps to meet demands of target markets

The change of focus to channel strategy

- Creates competitive advantage with long-term viability
- Builds strong relationships between manufacturers and channel members
- Based on trust, confidence, and people power



Channel Strategy and Logistics Management

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graph TD; A[Channel Strategy and Logistics Management] --> B[Part of distribution variable]; A --> C[Concerned with entire process of starting and operating contactual organization]; A --> D[Focused specifically on providing product availability at appropriate time & place];
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Part of distribution variable

- Concerned with entire process of starting and operating contactual organization
- Formulated *before* logistics management

Focused specifically on providing product availability at appropriate time & place

Marketing Channel Flows

Product Flow

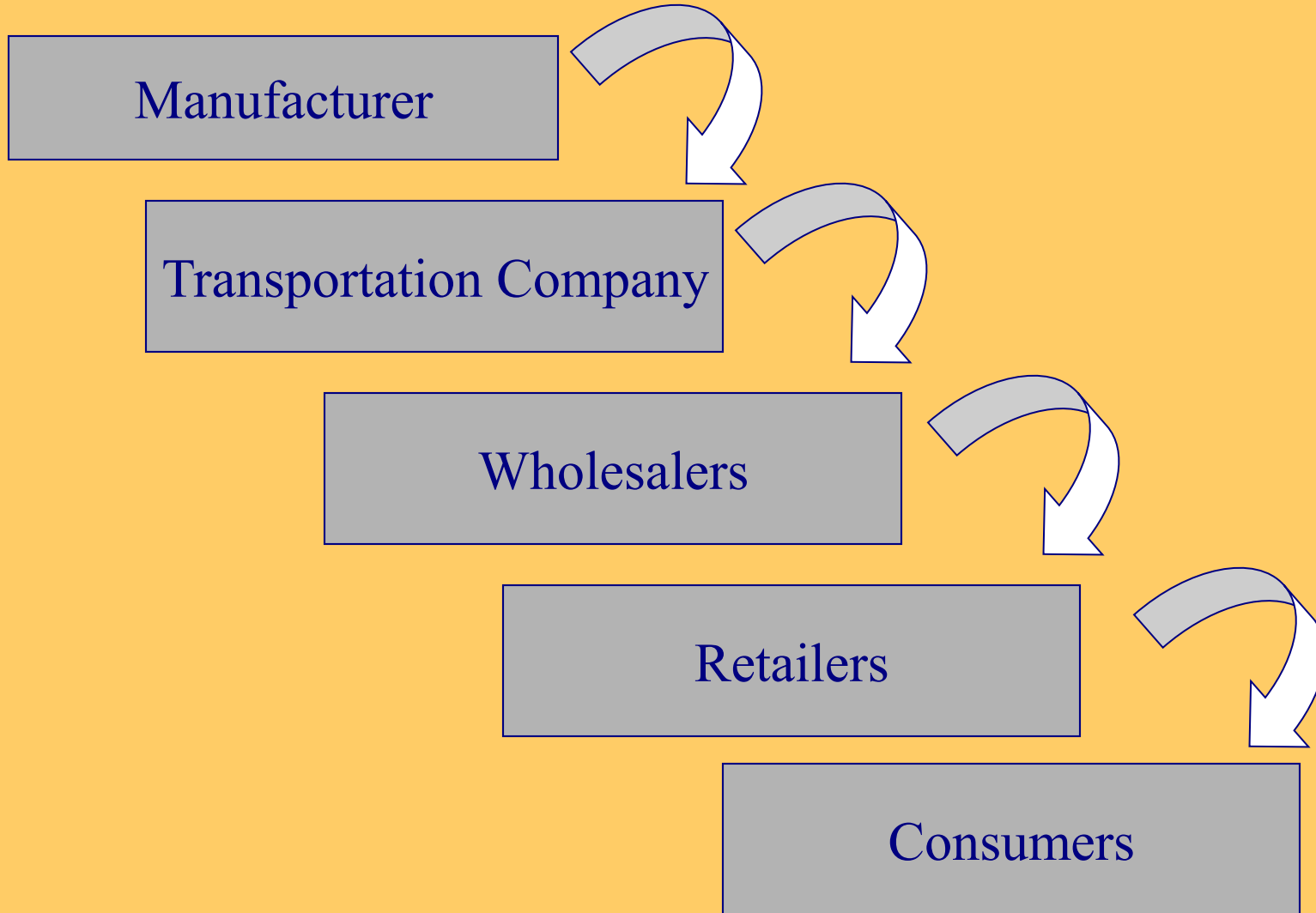
Negotiation Flow

Ownership Flow

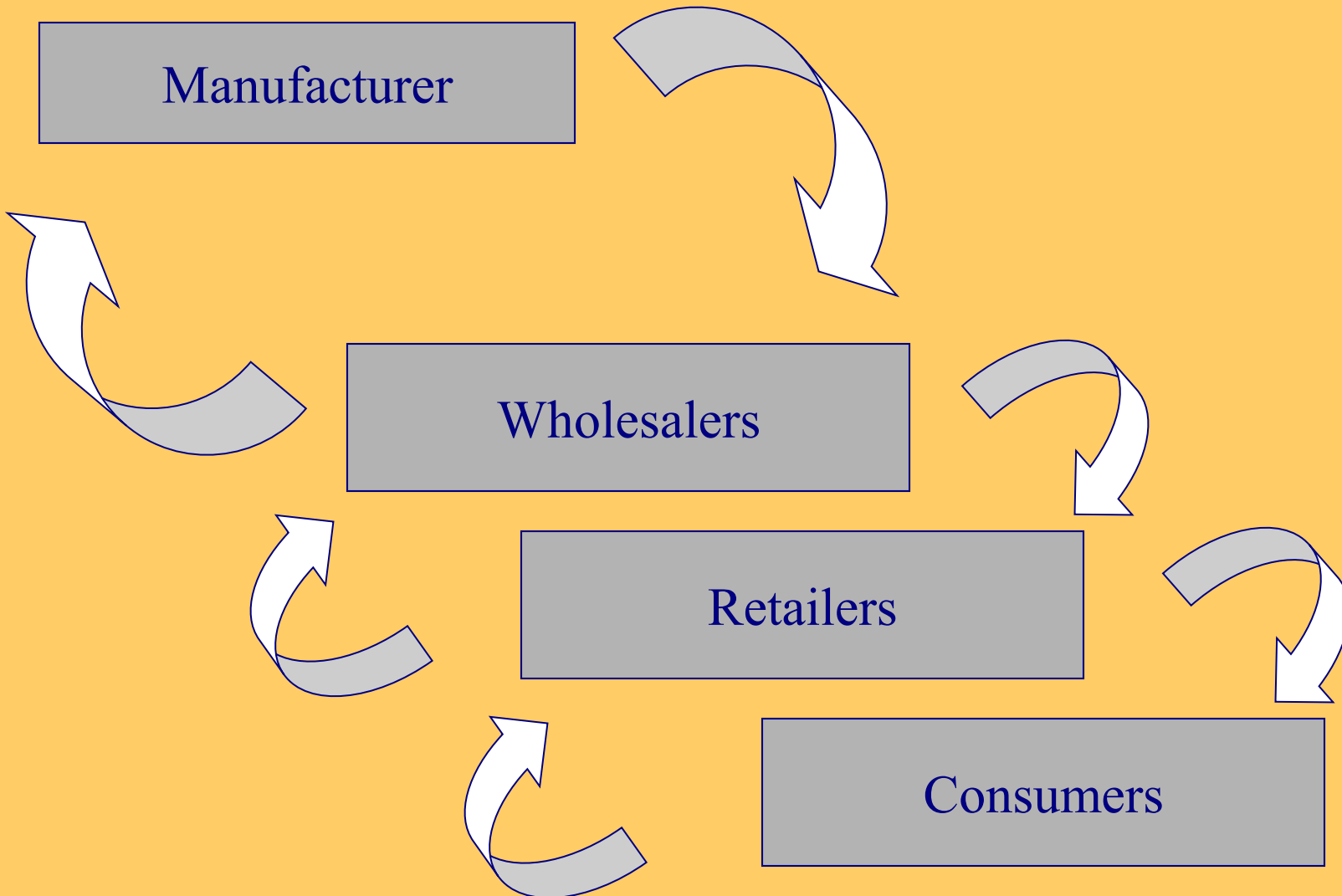
Information Flow

Promotion Flow

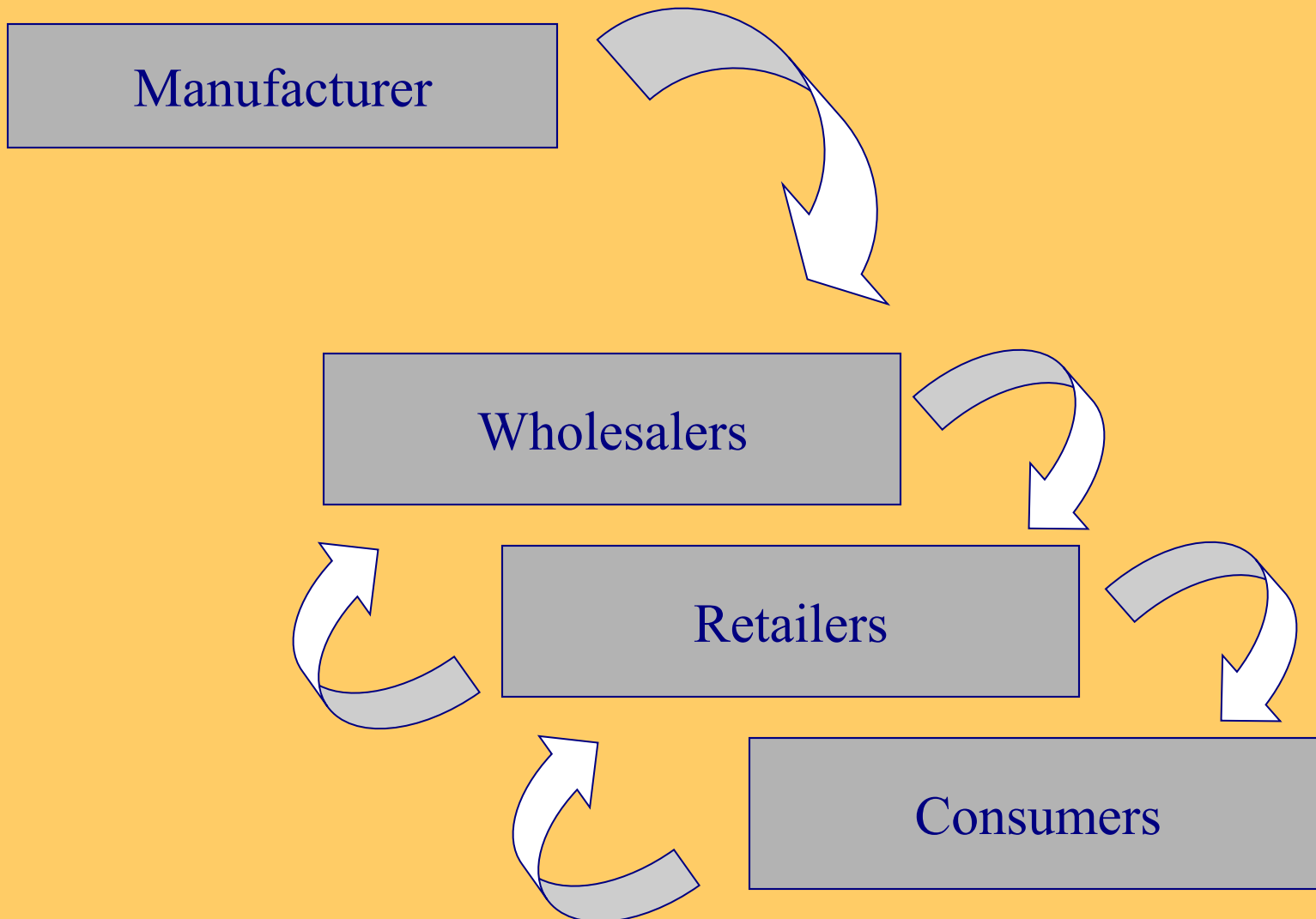
Product Flow



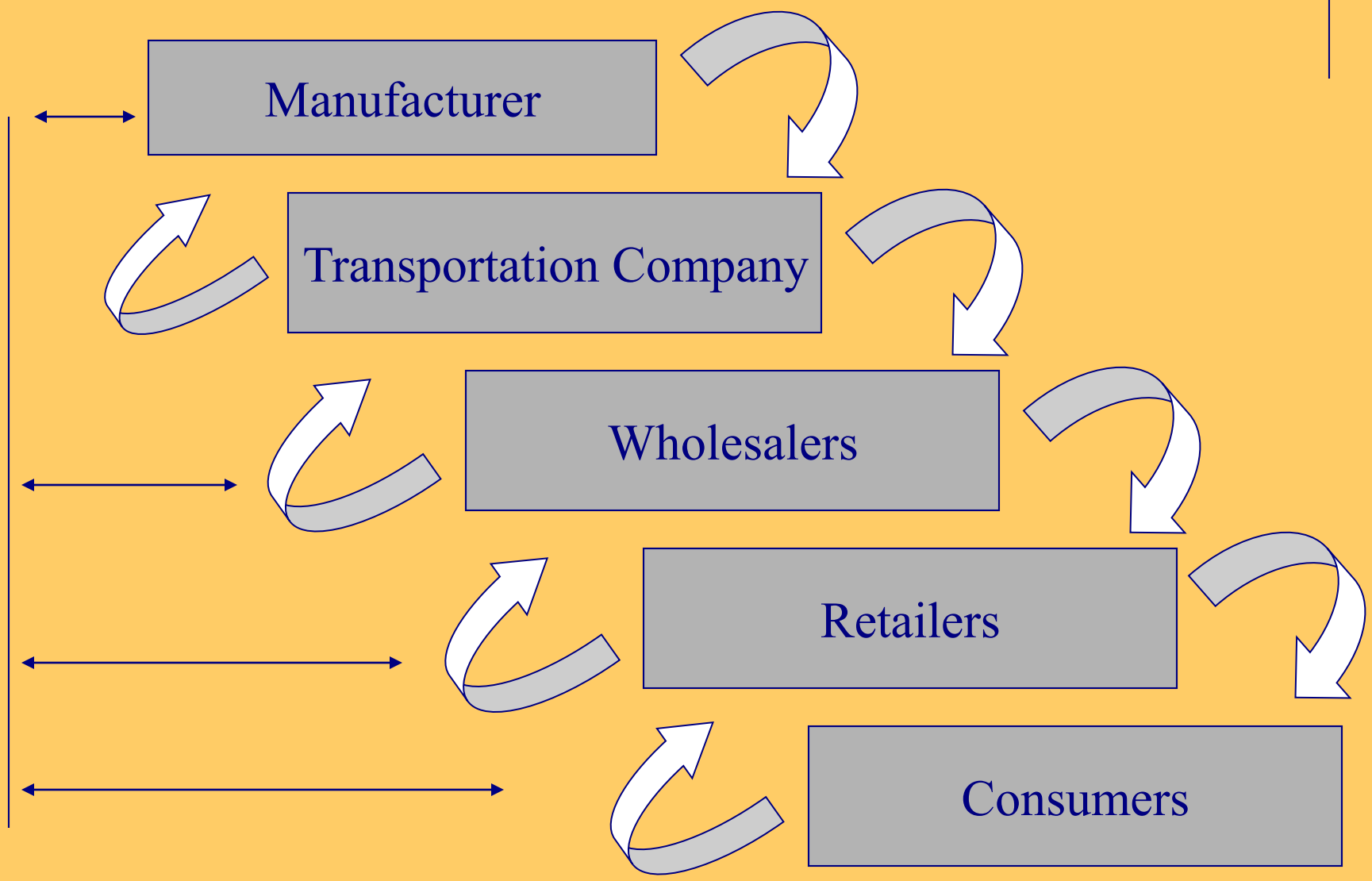
Negotiation Flow



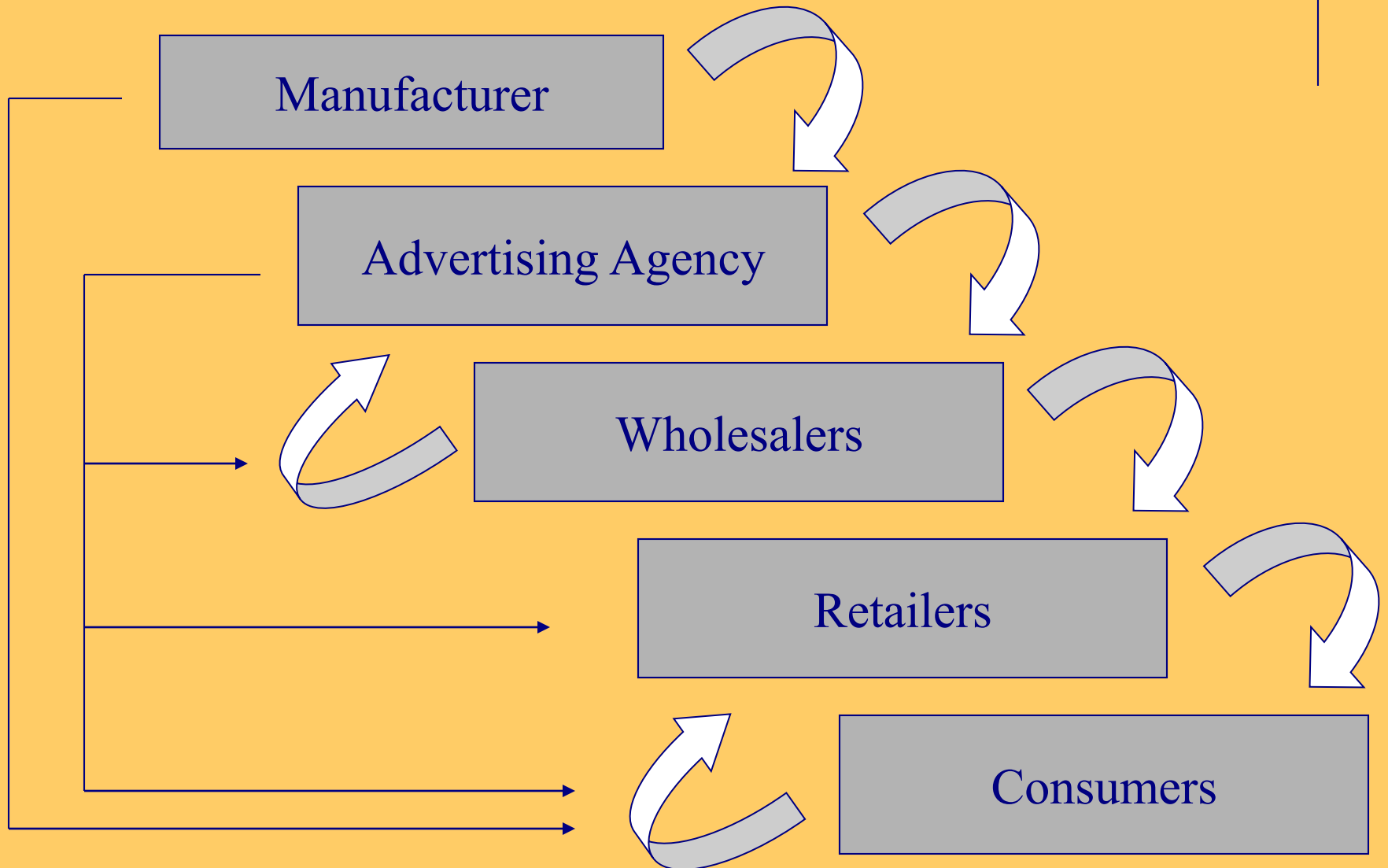
Ownership Flow



Information Flow



Promotion Flow



Distribution through intermediaries

Factors that determine the role of intermediaries

Technology



the Internet

Economic
Considerations



Specialization &
Division of Labor

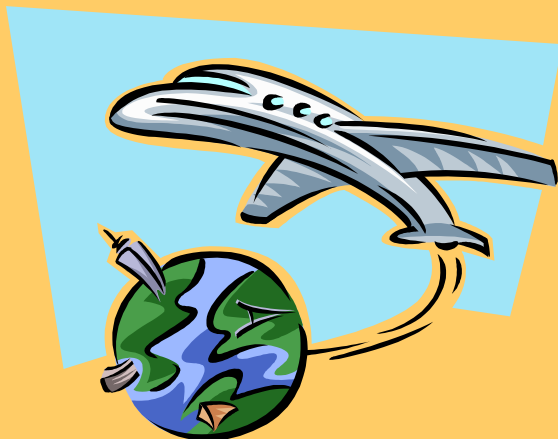
Contactual Efficiency

Specialization & Division of Labor

Distribution Tasks



Distributed
interorganizationally



Production Tasks



Distributed
intraorganizationally



Contactual Efficiency

Granada Guitar Co.

Negotiation Effort	Estimated Dollar Costs of Inputs	Distribution Objective (Output)	Contactual Efficiency
100 sales visits	@ \$50 = \$5,000	Get 500 music stores to carry new guitar line	Negotiation effort in dollar terms relative to achieving the distribution objective = \$25,300
100 phone calls	@ 3 = 300		
20 magazine ads	@1,000 = <u>20,000</u>		
	\$25,300		

Channel Structure v. Ancillary Structure

Channel Structure

The group of channel members to which a set of distribution tasks has been allocated



Why are single-channel structures currently the exception?

Ancillary Structure

The group of institutions that assist channel members in performing distribution tasks



Why is managing the ancillary structure most likely to be less complex than managing the channel structure?