

INFO464,Chap.4
Marketing Channels and Supply Chain
management

Nature and Importance of Marketing Channels

- Reaching prospective buyers, either directly or indirectly, is a prerequisite for successful marketing.

4.1 What Is a Marketing Channel of Distribution?

- **Marketing channel** consists of individuals and firms involved in the process of making a product or service available for use or consumption by consumers or industrial buyers.

- **Marketing channels** make possible the flow of goods from a Producer, through intermediaries, to a buyer -
 - a) Some intermediaries purchase items from the seller, store them, and resell them to buyers
 - b) Others represent sellers but do not take title to the products.

4.1.1 Value created by Intermediaries

- The importance of **intermediaries** is made clear when we consider the functions they perform and the value they create for buyers.

1. Functions Performed by Intermediaries

- _ A **transactional function** - involves buying, selling, and risk taking because they stock merchandise in anticipation of sales.
- A **logistical function** - gathering, storing, dispersing of products to buyers.

4.1.2 Channel Structure and Organization

- A product can take many routes on its journey from a producer to buyers and there are important differences between these marketing channels for consumer goods and those for industrial goods.

A) Marketing Channels for Consumer Goods and Services

* A **direct channel** is a marketing channel where a producer and ultimate consumers deal directly with each other. Since there are no intermediaries, the producer must perform all channel functions.
(producer - Consumer)

- **Indirect channels** - are marketing channels where **intermediaries** are inserted between the producer and consumers and perform numerous channel functions. (Producer - retailer-consumer)

a) The producer - retailer - consumer channel is the most common if the retailer can buy large quantities from a producer when the cost of inventory makes it too expensive to use a wholesaler.

b. The producer- wholesaler-retailer-consumer channel

is most common for low-cost, low-unit value items that are frequently purchased by consumers.

c. The producer - agent - wholesaler- retailer - consumer channel is used when there are many small manufacturers and many small retailers and an agent is used to help coordinate a large supply of product.

B) Marketing Channels for Business Goods and Services

Business channels are shorter and rely on one intermediary or none at all because business users are fewer in number, are more concentrated geographically and buy in larger quantities.

- A **direct channel** is used when buyers are large and well defined the sales effort requires extensive negotiations, and the products are of high unit value and require hands-on expertise in terms of installation or use.

- An **indirect channel** uses an **industrial distributor** or an **agent** between the buyer and the producer. An industrial distributor sells, stocks, delivers, etc.
- **Industrial distributors** are like wholesalers
in consumer channels. **Agents** serve as the independent selling arm of producers and represents a producer to industrial users.

C. Electronic Marketing Channels

- Interactive electronic technology has made possible electronic marketing channels, which employ the internet to make goods and services available to consumers or business buyers.
- A unique feature of these channels is that they **combine** electronic Intermediaries and traditional intermediaries to create, time, place, form and possession utility for buyers.

D. Multiple channels and Strategic Alliances

- Dual Distribution - a firm reaches different buyers by employing two or more different types of channels for the same basic product.
- Strategic Channel Alliances - whereby one firm's marketing channel is used to sell another firm's products.
- This is popular with **global marketing** where channel relationships can be expensive and time consuming.

E. Vertical Marketing Systems

- Vertical Marketing Systems are professionally managed and centrally coordinated marketing channels designed to achieve channel economies and maximum marketing impact.

1. Corporate Systems - corporate vertical marketing system is the combination of production and distribution under a single ownership.

2. A contractual vertical marketing system consists of independent production and distribution firms.

4.1.3 CHANNEL CHOICE AND MANAGEMENT

- Marketing channels not only link a producer to its buyers but also provide the means through which a firm executes its marketing strategy.
- **Factors in choosing a Marketing Channel:**
 1. Target Market Coverage
 - Achieving the best target market coverage requires attention to the density - the number of stores in a given geographical area.

4.1.4 Logistics and supply chain management

- A marketing channel relies on logistics to make products available to consumers and industrial users.
 - * **Logistics** - involves those activities that focus on getting the right amount of the right products to the right place at the right time at the lowest possible cost.

- **Supply Chains versus Marketing Channels**

A supply chain is a sequence of firms that perform activities required to create and deliver a good or service to consumers or industrial users.

- **The Automotive Supply Chain**

* A supply chain is 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.

4.2 RETAILING AND WHOLESALING.

- 4.2.1 Retailing** includes all the activities involved in selling goods or services directly to final consumers for their personal, non-business use.
- Many institutions—manufacturers, wholesalers, and retailers—do retailing. But most retailing is done by **retailers**(businesses whose sales come *primarily* from retailing).

- Although most retailing is done in **retail stores**, in recent years nonstarter retailing has been growing much faster than has store retailing.
- Nonstore retailing includes selling to final consumers through direct mail, catalogs, telephone, home TV shopping shows, home and office parties, door-to-door contact, vending machines, online services and the Internet, and other direct retailing approaches.

Types of Retailers

- They can be **classified** in terms of several characteristics, including the amount of service they offer, the breadth and depth of their product lines, the relative prices they charge, and how they are organized.

- **Amount of Service** Different products require different amounts of service, and customer service preferences vary.
- Retailers may offer one of three levels of service—self-service, limited service, and full service.

- **Product Line** Retailers also can be classified by the length and breadth of their product assortments.
- Some retailers, such as specialty stores, carry narrow product lines with deep assortments within those lines. Today, specialty stores are flourishing.
- The increasing use of market segmentation, market targeting, and product specialization has resulted in a greater need for stores that focus on specific products and segments.

- In contrast, **department stores** carry a wide variety of product lines.
- In recent years, **department stores** have been squeezed between more focused and flexible **specialty stores** on the one hand, and more efficient, **lower-priced discounters** on the other.

- **Supermarkets** are the most frequently shopped type of retail store.
- **Superstores** are much larger than regular supermarkets and offer a large assortment of routinely purchased food products, nonfood items, and services.

- Another superstore variation, hypermarkets, are huge superstores, perhaps as large as *six* football fields.
- Finally, for some retailers, the product line is actually a service.
- Service retailers include hotels and motels, banks, airlines, colleges, hospitals, movie theaters, tennis clubs, bowling alleys, restaurants, repair services, hair care shops, and dry cleaners.

Relative Prices

- Retailers can also be classified according to the **prices they charge**. Most retailers charge regular prices and offer normal-quality goods and customer service. Others offer higher-quality goods and service at higher prices.
- The retailers that feature low prices are discount stores, “off-price” retailers, and catalog showrooms, Factory outlets

Retailer Marketing Decisions

- Retailers are searching for new marketing strategies to attract and hold customers.
- In the past, retailers attracted customers with unique products, more or better services than their competitors offered, or credit cards.

- Today, national-brand manufacturers, in their drive for volume, have placed their branded goods everywhere.
- Thus, stores offer more similar assortments—**national brands** are found not only in department stores but also in mass-merchandise and off-price discount stores.

- Retailers face **major** marketing decisions about their target markets and positioning, product assortment and services, price, promotion, and place.
- Retailers first must define their target markets and then decide how they will position themselves in these markets.
- Retailers must decide on **three major product variables**: product assortment, services mix, and store atmosphere.

- **Price Decision** A retailer's price policy is a crucial positioning factor and must be decided in relation to its target market, its product and service assortment, and its competition.
- All retailers would like to charge high markups and achieve high volume, but the two seldom go together.
- Most retailers seek *either* high markups on lower volume (most specialty stores) *or* low markups on higher volume (mass merchandisers and discount stores).

- **Promotion Decision** Retailers use the normal promotion tools—advertising, personal selling, sales promotion, public relations, and direct marketing—to reach consumers.
- They advertise in newspapers, magazines, radio, and television.
- Advertising may be supported by newspaper inserts and direct-mail pieces.

- **Place Decision** Retailers often cite three critical factors in retailing success: location, location, and location!
- A retailer's location is key to its ability to attract customers.
- The costs of building or leasing facilities have a major impact on the retailer's profits.
- Thus, site-location decisions are among the most important the retailer makes.

- Retailers operate in a harsh and fast-changing environment, which offers **threats** as well as **opportunities**.
- New retail forms continue to emerge to meet new situations and consumer needs, but the life cycle of new retail forms is getting shorter.
- **Retail technologies** are becoming critically important as competitive tools. Perhaps the most startling advances in retailing technology concern the ways in which today's retailers are connecting with customers:

4.2.2 Wholesaling

Wholesaling includes all activities involved in selling goods and services to those buying for resale or business use.

We call wholesalers those firms engaged *primarily* in wholesaling activity.

Wholesalers buy mostly from producers and sell mostly to retailers, industrial consumers, and other wholesalers.

wholesalers are often better at performing one or more of the following channel functions:

- *Selling and promoting*: Wholesalers' sales forces help manufacturers reach many small customers at a low cost. The wholesaler has more contacts and is often more trusted by the buyer than the distant manufacturer.
- *Buying and assortment building*: Wholesalers can select items and build assortments needed by their customers, thereby saving the consumers much work.
- *Bulk-breaking*: Wholesalers save their customers money by buying in carload lots and breaking bulk (breaking large lots into small quantities).
- *Warehousing*: Wholesalers hold inventories, thereby reducing the inventory costs and risks of suppliers and customers.

- Transportation: Wholesalers can provide quicker delivery to buyers because they are closer than the producers.
- Financing: Wholesalers finance their customers by giving credit, and they finance their suppliers by ordering early and paying bills on time.
- Risk bearing: Wholesalers absorb risk by taking title and bearing the cost of theft, damage, spoilage, and obsolescence.
- Market information: Wholesalers give information to suppliers and customers about competitors, new products, and price developments.
- Management services and advice: Wholesalers often help retailers train their salesclerks, improve store layouts and displays, and set up accounting and inventory control systems.

Types of Wholesalers

- Wholesalers fall into three major groups : merchant wholesalers, brokers and agents, and manufacturers' sales branches and offices.
- Merchant wholesalers are the largest single group of wholesalers, accounting for roughly 50 percent of all wholesaling.
- Merchant wholesalers include two broad types: full-service wholesalers and limited-service wholesalers.
- *Full-service wholesalers* provide a full set of services, whereas the various *limited-service wholesalers* offer fewer services to their suppliers and customers. The several different types of limited-service wholesalers perform varied specialized functions in the distribution channel.

Wholesaler Marketing Decisions

- Wholesalers have experienced mounting competitive pressures in recent years.
- They have faced new sources of competition, more demanding customers, new technologies, and more direct-buying programs on the part of large industrial, institutional, and retail buyers.
- As a result, they have had to improve their strategic decisions on target markets and positioning, and on the marketing mix—product assortments and services, price, promotion, and place .

4.3 Integrated Marketing Communications

– Advertising & Sales Promotion

- **Integrated Marketing Communication (IMC)** is a term that first emerged in the late 20th century.
- The term has varying definitions, depending upon the source cited. The ultimate goal of IMC is to transform marketing from an expense into a center of profit.

- IMC is "an approach to achieving the objectives of a marketing campaign through a well-coordinated use of different promotional methods that are intended to reinforce each other."
- The intended goal of IMC, according to this definition, is to make all aspects of marketing communication (such as advertising, sales promotion, public relations, [direct marketing](#), personal selling, online communications and [social media](#)), work together as a unified force rather than permitting each to work individually in isolation.
- The hope is that this unified approach will maximize [cost effectiveness](#).

- The development of IMC originated mainly around the need for businesses to offer clients more than just standard advertising.
- The new marketplace trends in the late 20th century gave organizations to shift from the standard **advertising approach** to the IMC approach:

- **Decreasing message impact and credibility:** The growing number of commercial messaging made it steadily more difficult for a single message to have a noteworthy effect.
- **Decreasing costs of databases:** The cost of storing and retrieving names, addresses and information from databases significantly declined. This decline allowed marketers to more efficiently reach consumers.
- **Increasing client expertise:** Clients of marketing and public relations firms became more educated regarding advertising policies, procedures and tactics than ever before. Clients learned to no longer accept the idea that television advertising was the only way to reach consumers.

- **Increasing mergers and acquisitions of agencies:** A great deal of the top public relations firms and advertising agencies became partnered together or partnered with other communication firms. These mergers allowed for more creativity, and the expansion of communication from only advertising, to disciplines such as [event planning](#) and promotion.
- **Increasing global marketing:** There was a rapid influx of advertising competition from foreign countries outside of the United States. Companies quickly realized that even if they did not particularly do business outside of their native country, they were now competing in [global marketing](#).

- **Increasing media and audience fragmentation:**
With the exception of the decline of newspapers, media outlets such as magazines and television stations drastically increased from 1980 to 1990. In addition, computers and technology allowed companies to specifically target specialized audiences based on factors such as ethnic background or place of residence.
- **Increasing number of overall products:**
Manufacturers flooded retailers with a plethora of new products, many of which were identical to already existing products. Thus, the significance of a unique marketing and branding approach proved crucial to gaining consumer attention and increasing sales.

Model & Stages

- Like the IMC definition, models of the IMC approach vary according to the source cited.
- Models often stress the importance of blending together a variety of different marketing tools to maximize customer experience and value.
- **IMC models** are often illustrated as equal concentric circles in which one moves from the innermost circle to the outermost circle..

1. Stage one: Awareness: Knowledge of changing business.
2. Stage two: Image integration
3. Stage three: Functional integration
4. Stage four: Coordinated integration
5. Stage five: Consumer based integration
6. Stage six: Stakeholder based integration
7. Stage seven: Relationship management integration: A fully integrated communication strategy exists bringing customers and stakeholders into direct contact with the business.

Types of advertising

- **Television advertising**
- **Infomercials**
- An infomercial is a long-format television commercial, typically five minutes or longer. The word "infomercial" is a combination of the words "information" & "commercial".
- **Radio advertising**
- **Online advertising**
- **Covert advertising**, is when a product or brand is embedded in entertainment and media.

- **Press advertising**
- Billboard advertising: [Billboards](#) are large structures located in public places which display advertisements to passing pedestrians and motorists.
- **Mobile billboard advertising**
- **In-store advertising**: is any advertisement placed in a retail store.
- **Coffee cup advertising** :is any advertisement placed upon a coffee cup that is distributed out of an office, café, or drive-through coffee shop.

- **Street advertising**
- **Sheltered Outdoor Advertising**
- This type of advertising opens the possibility of combining outdoor with indoor advertisement by placing large mobile, structures ([tents](#)) in public places on temporary bases.
- **Celebrity branding**
- This type of advertising focuses upon using celebrity power, fame, money, popularity to gain recognition for their products and promote specific stores or products.

- **Consumer-generated advertising**
- This involves getting consumers to generate advertising through blogs, websites, wikis and forums, for some kind of payment.
- **Aerial advertising**
- Using aircraft, balloons or airships to create or display advertising media. Skywriting is a notable example.

Sales promotions

- **Sales promotions** are another way to advertise. Sales promotions are double purposed because they are used to gather information about what type of customers you draw in and where they are, and to jump start sales.
- Sales promotions include things like contests and games, sweepstakes, product giveaways, samples coupons, loyalty programs, and discounts.

- The ultimate goal of sales promotions is to **stimulate potential customers to action**.
- With the **Internet** came many new advertising opportunities. Popup, [Flash](#), banner, Popunder, [advergaming](#), and email advertisements (all of which are often unwanted or spam in the case of email) are now common place.

- **Global advertising**
- Advertising has gone through five major stages of development: domestic, export, international, multi-national, and global.
- Advertising research is key to determining the success of an ad in any country or region.
- **Foreign public messaging**
- Foreign governments, particularly those that own marketable commercial products or services, often promote their interests and positions through the advertising of those goods.
- A prime example of this messaging technique is [advertising campaigns to promote international travel](#)

- **New technology**
- The ability to record shows on [digital video recorders](#) (such as TiVo) allow users to record the programs for later viewing, enabling them to fast forward through commercials.
- **Advertising research** is a specialized form of research that works to improve the effectiveness and efficiency of **advertising**.

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