

Chapter 1: Understanding Channel Strategies

DINH Tien Minh

LEARNING OBJECTIVES

- Define a marketing channel.
- Explain why manufacturers choose to use intermediaries.
- Define the marketing functions that constitute the work of the channel.
- Identify the members of marketing channels and the functions in which they specialize.
- Outline the elements of a framework for marketing channel design and implementation.

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THE IMPORTANCE OF MARKETING CHANNEL STRATEGIES

- Marketing channels represent a significant portion of the world's business.
- The channel is a gatekeeper between the manufacturer and the end-user.
- The channel *experience* determines people's perceptions of the manufacturer's brand image and thus end-user satisfaction.
- Marketing channel is an important asset in the company's overall *marketing and positioning strategy*.

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WHAT IS A MARKETING CHANNEL STRATEGY?

- Marketing channel or marketing channel system, defined as a set of interdependent organizations involved in the process of making a product or service available for use or consumption.
- The set of activities focused on designing and managing a marketing channel to enhance the firm's sustainable competitive advantage and financial performance.

(Robert et al., 2015)

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WHO PARTICIPATES IN MARKETING CHANNELS?

- Manufacturers
- Intermediaries (wholesale, retail, and specialized)
- End-users (business customers or consumers).

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WHO PARTICIPATES IN MARKETING CHANNELS?

- **Manufacturers: Upstream Channel Members**
 - Manufacturers that brand their products are known by name to end-users.
 - Manufacturers that make products but do not invest in a branded name for them produce *private-label products*.
 - The manufacturer need not be the channel captain

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WHO PARTICIPATES IN MARKETING CHANNELS?

- **Intermediary** refers to any channel member *other* than the manufacturer or the end-user.
 - Three general types:
 - Wholesale
 - Retail
 - Specialized

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WHO PARTICIPATES IN MARKETING CHANNELS?

- **Wholesalers** include merchant wholesalers or distributors, manufacturers' representatives, agents, and brokers.
 - A wholesaler sells to other channel intermediaries, such as retailers, or to business end-users, but not to individual consumer end-users.

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WHO PARTICIPATES IN MARKETING CHANNELS?

- **Retail intermediaries** come in many' forms: department stores, mass merchandisers, hypermarkets, specialty stores, category' killers, convenience stores, franchises, buying clubs, warehouse clubs, cataloguers, and online retailers.
 - Unlike purely wholesale intermediaries, they sell directly to individual consumer end-users
 - Retailers might contract to produce private-label goods.
 - They also may sell to buyers other than consumers

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WHO PARTICIPATES IN MARKETING CHANNELS?

- **Specialized intermediaries** enter the channel to perform a specific function.
 - For example:
 - Insurance, financing, and credit card companies
 - Advertising agencies
 - Logistics and shipping firms
 - Information technology firms
 - Marketing research firms

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WHO PARTICIPATES IN MARKETING CHANNELS?

- **End-Users: Downstream Channel Members**
 - **End-users** (either business or individual consumers) are channel members because they can and frequently do perform channel functions such as physical possession, ownership, and financing functions,

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WHO PARTICIPATES IN MARKETING CHANNELS?

- **Combinations of Channel Members**
 - Channel participants can be combined in many ways to create an effective marketing channel strategy (Read Appendix 1).
 - The range and number of channel members is affected by the needs of the end-users and manufacturers.

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WHY DO MARKETING CHANNELS EXIST?

- Why don't manufacturers just sell their products and services directly to all end-users?
- Does the direct sell to end-user exist?

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Benefits for Downstream Channel Members

- **SEARCH FACILITATION**
 - Intermediaries facilitate searches.
 - The search process is characterized by uncertainty for both end-users and sellers.
- **SORTING**
 - **Sorting out:** breaking down heterogeneous supply into separate stocks that are relatively homogeneous
 - **Accumulation:** combines similar stocks from multiple sources to provide a broader, homogeneous supply
 - **Allocation:** Breaking homogeneous supply down into smaller and smaller lots helps other channel members handle the supply more easily
 - **Assorting:** building up an assortment of products for resale in association.

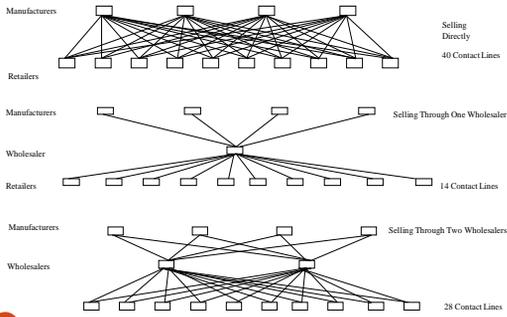
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Benefits to Upstream Channel Members

- **ROUTINIZATION OF TRANSACTIONS**
 - *Continuous replenishment programs (CRP)*
- **FEWER CONTACTS**

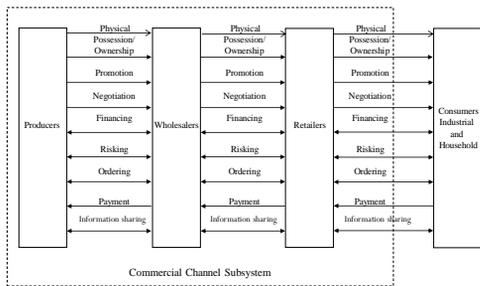
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CONTACT COSTS TO REACH THE MARKET WITH AND WITHOUT INTERMEDIARIES



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WHAT ARE THE KEY FUNCTIONS MARKETING CHANNELS PERFORM



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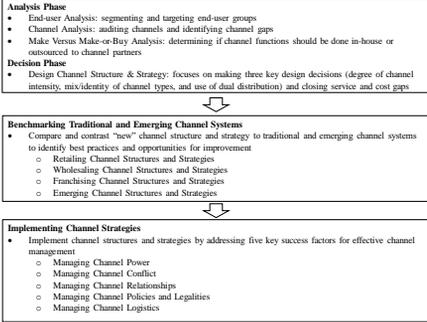
(Robert et al., 2015)

- The channel functions may occur in different ways at different points of the channel.
- Not every channel member need participate in every channel function.
- The performance of certain channel functions is correlated with that of other functions

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CHANNEL STRATEGY FRAMEWORK

Framework for designing and implementing channel strategy



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CHANNEL STRATEGY FRAMEWORK

- **End-User Analysis:** Segmentation and Targeting
 - Segmentation means splitting a market into groups of end-users who are (1) maximally similar to one another and (2) maximally different from other groups of end-users.
 - Service outputs include (but are not limited to) *bulk breaking, spatial convenience, waiting and delivery time, assortment and variety, customer service, and product / market / usage information sharing.*

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CHANNEL STRATEGY FRAMEWORK

	Enquirer buying best-sellers to take on vacation		Student buying textbooks for fall semester at college	
	Descriptor	Service Output Demand Level	Descriptor	Service Output Demand Level
Bulk-breaking	"I'm looking for some 'good read' paperbacks to enjoy."	Medium	"I only need one copy of my Marketing textbook!"	High
Spatial convenience	"I have lots of errands to run before leaving town, so I'll be going past several bookstores."	Medium	"I don't have a car, so I can't travel far to buy."	High
Waiting and delivery time	"I'm not worried about getting the books now... I can even pick up a few when I'm out of town if need be."	Low	"I just got to campus, but classes are starting tomorrow and I'll need my books by then."	High
Assortment and variety	"I want the best choice available, so that I can pick what looks good."	High	"I'm just buying what's on my course reading list."	Low
Customer service	"I like to stop for a coffee when book browsing."	High	"I can find books myself, and don't need any special help."	Low
Information provision	"I value the opinions of a well-read bookstore employee; I can't always tell a good book from a bad one before I buy."	High	"My professors have already decided what I'll read this semester."	Low

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CHANNEL STRATEGY FRAMEWORK

- **Channel Analysis: Auditing Marketing Channels**
 - Evaluate the capabilities of each potential channel, in terms of the nine key channel functions, to determine how well it is suited to meet the segment's service output demands.
 - Complete the gap analysis template to identify both service gaps and cost gaps

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CHANNEL STRATEGY FRAMEWORK

- **Make-or-Buy Channel Analysis**
 - Should the firm integrate vertically by performing both upstream (e.g., manufacturing) and downstream (e.g., distribution) functions?
 - Should a single organization perform all channel functions (i.e., manufacturer, agent, distributor, retailer—all rolled into one)?
 - Should outsourcing apply to either distribution (upstream looking down) or production (downstream looking up), or both, such that the identities of manufacturers and downstream channel members are separate?

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CHANNEL STRATEGY FRAMEWORK

- **Designing Channel Structures and Strategies**
 - The degree of channel intensity
 - Mix of channel types/identities
 - Use of dual distribution
 - Close any service or costs gaps.
 - Find an optimal channel structure

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CHANNEL STRATEGY FRAMEWORK

- **Benchmarking Traditional and Emerging Channel Systems**
 - Use existing channel systems as benchmarks, comparing them against “new” channel designs, which play important roles in their own right.
 - Other channel systems can offer important insights that new designs need to leverage.
 - Among existing channel systems, the three most notable or well known are retailing, wholesaling, and franchising.

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CHANNEL STRATEGY FRAMEWORK

- **Implementing Channel Strategies**
 - Channel managers must manage five key channel elements to ensure that the channel system runs smoothly and all participants cooperate to optimize it:
 - Power
 - Conflict
 - Relationships
 - Policies and legalities
 - Logistics

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THE END!

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