CHAPTER THIRTEEN
MARKETING CHANNELS AND LOGISTICS MANAGEMENT
Channels provide the means by which the firm moves the goods and services it produces to ultimate users.

Channels perform four important functions. They:

- Facilitate the exchange process by cutting the number of contacts necessary
- Adjust for discrepancies in the market’s assortment of goods and services via sorting
- Standardize payment terms, delivery schedules, prices, and purchase lots
- Facilitate searches by both buyers and sellers
**TYPES OF MARKETING CHANNELS**

- **Marketing channel:** system of marketing institutions that promotes the physical flow of goods and services, along with ownership title, from producers to consumer or business user; also called a *distribution channel*

- **Marketing intermediary:** wholesaler or retailer that operates between producers and consumers or business users; also called a *middleman*

- **Wholesaler:** marketing intermediary that takes title to goods and then distributes these goods further; also called a *jobber* or *distributor*
TWO COMPONENTS OF CHANNELS OF DISTRIBUTION

I. Channel Structure refers to the various combinations of institutions (e.g., manufacturers, wholesalers, and retailers) that join forces in a marketing channel arrangement to facilitate the delivery of goods and services to ultimate consumers or users (Stern and El-Ansary 1988).

II. Governance Structure is the framework in which channel members conduct business and interact. In other words, the institutional framework in which relationships are established and the terms of the relationship (contracts) are initiated, negotiated, monitored, adapted, enforced, and terminated.
Figure 13.2: Alternative Marketing Channels
Step 1. Analyze Consumer Needs for Channel Services:
  * Locational convenience
  * Lot size
  * Delivery time
  * Product variety

Step 2. Establish Channel Objectives for Delivering Service Levels

Step 3. Set Channel Strategy in Terms of:
  * Coverage
  * Support & Ownership

Step 4. Select Appropriate Channel from Available Alternatives
  Direct or Indirect

Step 5. Select Specific Channel Partners
I. Channel structure must be derived from channel objectives. These objectives, in turn, result from a careful analysis of the service levels desired by consumers and from management’s long-run overall goals for the organization.

II. The specific objectives for the channel must be couched in terms of the service levels that are needed to meet the demands of the channel’s target market.

**EXAMPLE**

A well-known food processor recently developed a high-quality prepared frozen entree to be sold in supermarkets and convenience stores. The channel objectives for this company were clearly stated.

“WE WANT THIS PRODUCT TO BE NO MORE THAN A TEN-MINUTE DRIVE FROM 75 PERCENT OF THE FULL-TIME WORKING WOMEN IN THE UNITED STATES. WE PLAN TO REACH THIS GOAL WITHIN 12 MONTHS OF OUR PRODUCT ROLL-OUT.”
**CHANNEL STRATEGY DECISIONS**

- **Distribution intensity**: number of intermediaries through which a manufacturer distributes its goods

- **Intensive distribution**: channel policy in which a manufacturer of a convenience product attempts to saturate the market

- **Selective distribution**: channel policy in which a firm chooses only a limited number of retailers to handle its product line

**Determining Distribution Intensity**
CHANNEL STRATEGY
DECISIONS

- **Exclusive distribution**: channel policy in which a firm grants exclusive rights to a single wholesaler or retailer to sell its products and a particular geographic area.

Determining Distribution Intensity
CHANNEL STRATEGY DECISIONS

Factors which impact the selection of a marketing channel include:

- Market factors
- Product factors
- Organizational factors
- Competitive factors
Table 13.1: Factors Influencing Marketing Channel Strategies

<table>
<thead>
<tr>
<th>Market factors</th>
<th>Characteristics of Short Channels</th>
<th>Characteristics of Long Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business users</td>
<td>Consumers</td>
<td>Geographically diverse</td>
</tr>
<tr>
<td>Geographically concentrated</td>
<td>Extensive technical knowledge and regular servicing required</td>
<td>Little technical knowledge and regular servicing not required</td>
</tr>
<tr>
<td>Large orders</td>
<td>Small orders</td>
<td></td>
</tr>
<tr>
<td>Product factors</td>
<td>Perishable</td>
<td>Durable</td>
</tr>
<tr>
<td>Complex</td>
<td>Standardized</td>
<td></td>
</tr>
<tr>
<td>Expensive</td>
<td>Inexpensive</td>
<td></td>
</tr>
</tbody>
</table>
### Table 13.1: Factors Influencing Marketing Channel Strategies (Continued)

<table>
<thead>
<tr>
<th>Characteristics of Short Channels</th>
<th>Characteristics of Long Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Producer factors</strong></td>
<td></td>
</tr>
<tr>
<td>Manufacturer has adequate resources to perform channel functions</td>
<td>Manufacturer lacks adequate resources to perform channel functions</td>
</tr>
<tr>
<td>Broad product line</td>
<td>Channel control important</td>
</tr>
<tr>
<td>Limited product line</td>
<td>Channel control not important</td>
</tr>
<tr>
<td><strong>Competitive factors</strong></td>
<td></td>
</tr>
<tr>
<td>Manufacturing feels satisfied with marketing intermediaries’ performance in promoting products</td>
<td>Manufacturer feels dissatisfied with marketing intermediaries’ performance in promoting products</td>
</tr>
</tbody>
</table>
Fundamental principle that governs channel decisions: Channel members can shift responsibilities for the performance of certain marketing functions, but they cannot eliminate central functions.
VERTICAL MARKETING SYSTEMS

- *Vertical marketing system (VMS)*: planned channel system designed to improve distribution efficiency and cost effectiveness by integrating various functions throughout the distribution chain.
Corporate marketing system: a VMS in which a single owner operates at each stage in its marketing channel.

Example: Hartmarx markets its Hart Schaffner and Marx suits through company-owned stores and selected independent retailers.
VERTICAL MARKETING SYSTEMS

- Administered marketing system: VMS that achieves channel coordination when a dominant channel member exercises its power.
- Example: Goodyear sells tires through independently owned dealers, but controls the stock that the dealers carry.
Channel Captain: a dominant and controlling member of a marketing channel
VERTICAL MARKETING SYSTEMS

- **Contractual marketing system:**
  VMS that coordinates channel activities through formal agreements among channel members like:
  - Wholesaler-Sponsored Voluntary Chains
  - Retail Cooperatives
  - Franchises