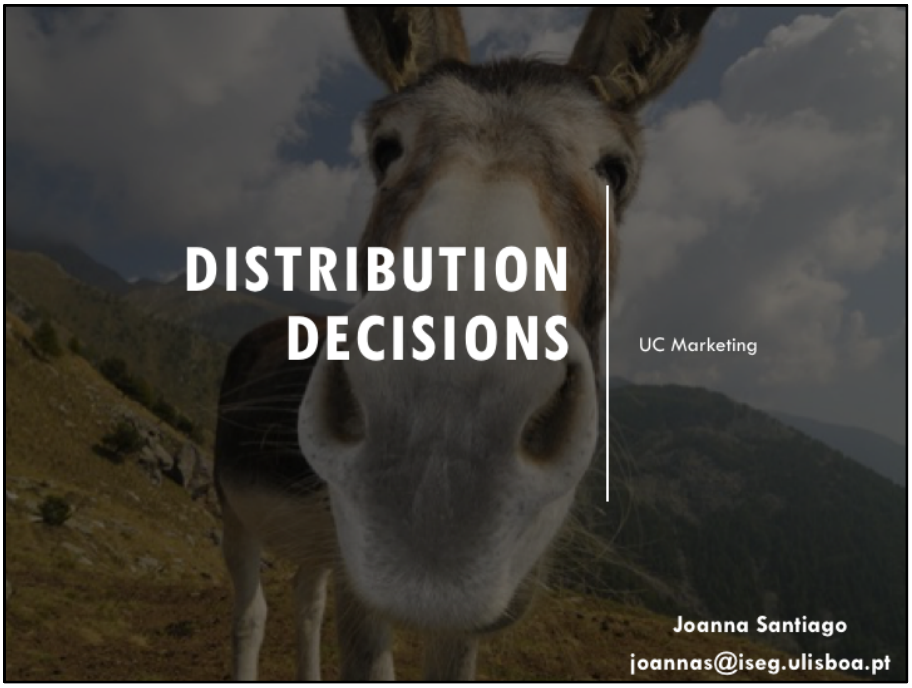
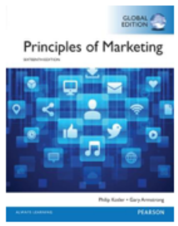

DISTRIBUTION
DECISIONS
UC Marketing
Joanna Santiago
joannas@iseg.ulisboa.pt

PRINCIPLES OF MARKETING
GLOBAL EDITION

Kotler and Armstrong



Chapter 12:

Marketing Channels

Delivering Customer Value

FACTS

Distribution channels typically account for **15–40 per cent of the retail price** of goods and services in an industry.

Over the next few years the challenges and opportunities for channel management will multiply, as **technological developments** accelerate channel evolution.

Data networks are increasingly enabling end users to **bypass traditional channels** and deal directly with manufacturers and service providers.


110
50


Bata

Kerosene is a combustible hydrocarbon liquid used for lamps, cooking stoves, etc.. It is a common household oil in **Nigeria** .


www.alamy.com - FCWYCJ

CHANNEL DECISIONS

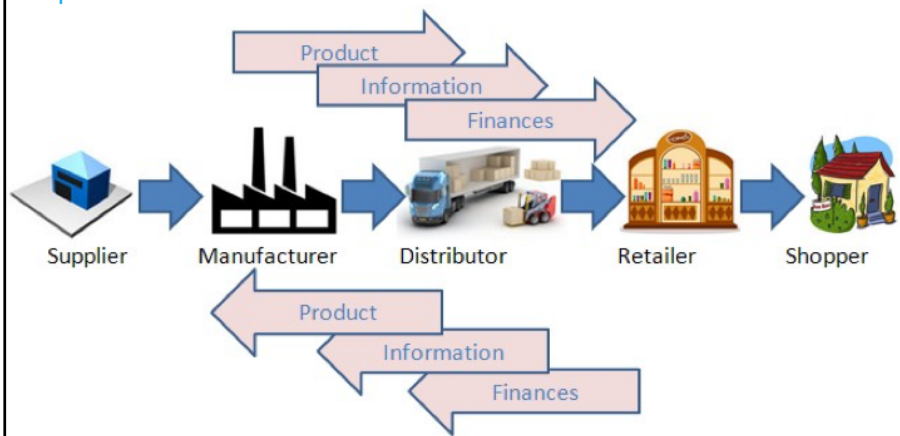
External (section 12.2)

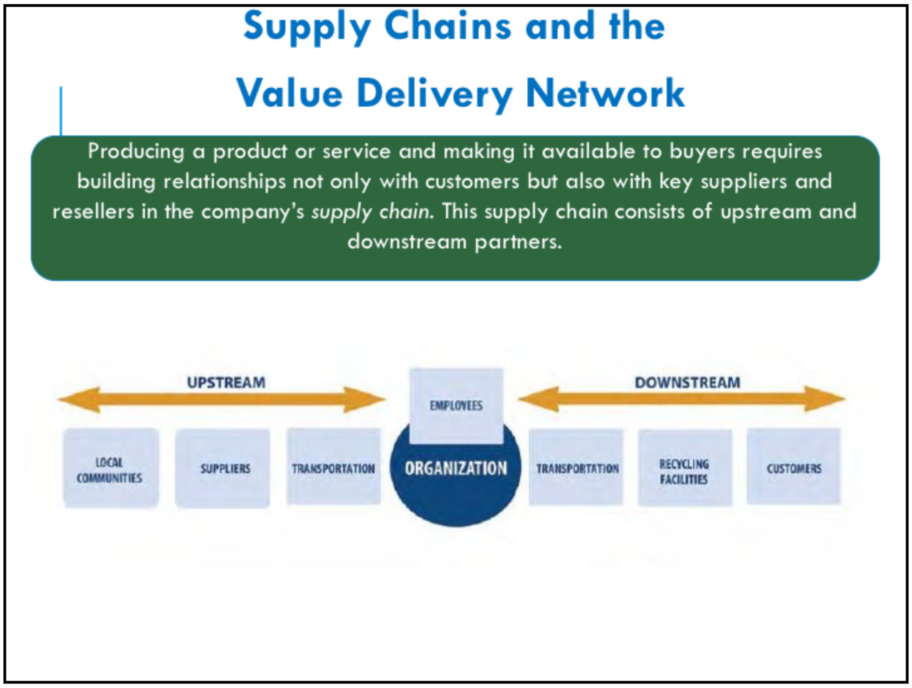
Customer characteristics	Nature of product	Nature of demand (location)	Competition	Legal regulations/local business practices

Internal

Major decisions	Subdecisions
Decisions concerning structure of the channel (section 12.3)	• Types of intermediary (alternative distribution channels) • Coverage (intensive, selective or exclusive) • Length (number of levels) • Control resources (degree of integration) • Degree of integration
Managing and controlling distribution channels (section 12.4)	• Screening and selecting intermediaries • Contracting (distributor agreement) • Motivating • Controlling • Termination
Managing logistics (section 12.5)	Physical movement of goods through the channel systems • Order handling • Transportation • Inventory • Storage/warehousing

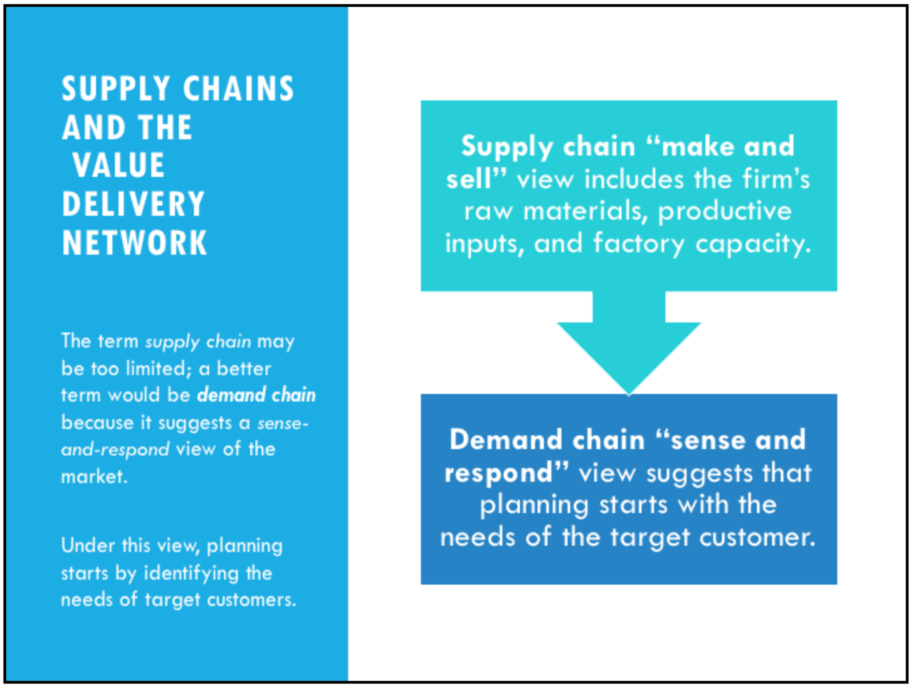
VALUE DELIVERY NETWORK





Producing a product or service and making it available to buyers requires building relationships not only with customers but also with key suppliers and resellers in the company's *supply chain*. This supply chain consists of upstream and downstream partners.

Marketers have traditionally focused on the downstream marketing channel partners, such as wholesalers and retailers, who form a vital link between the firm and its customers.



The term *supply chain* may be too limited; a better term would be *demand chain* because it suggests a *sense-and-respond* view of the market.

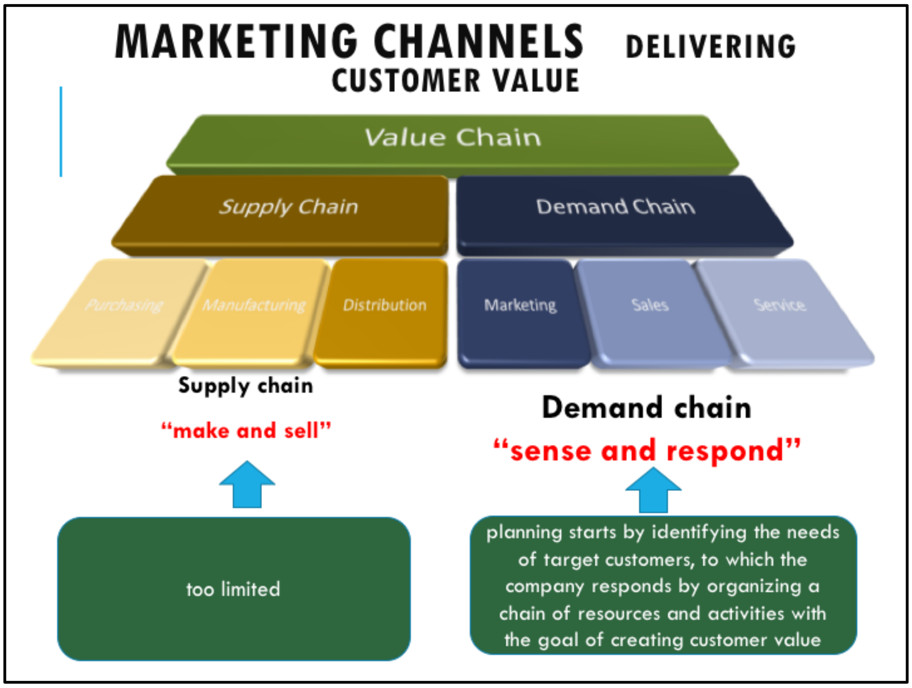
Under this view, planning starts by identifying the needs of target customers, to which the company responds by organizing a chain of resources and activities with the goal of creating customer value.

SUPPLY CHAINS AND THE VALUE DELIVERY NETWORK

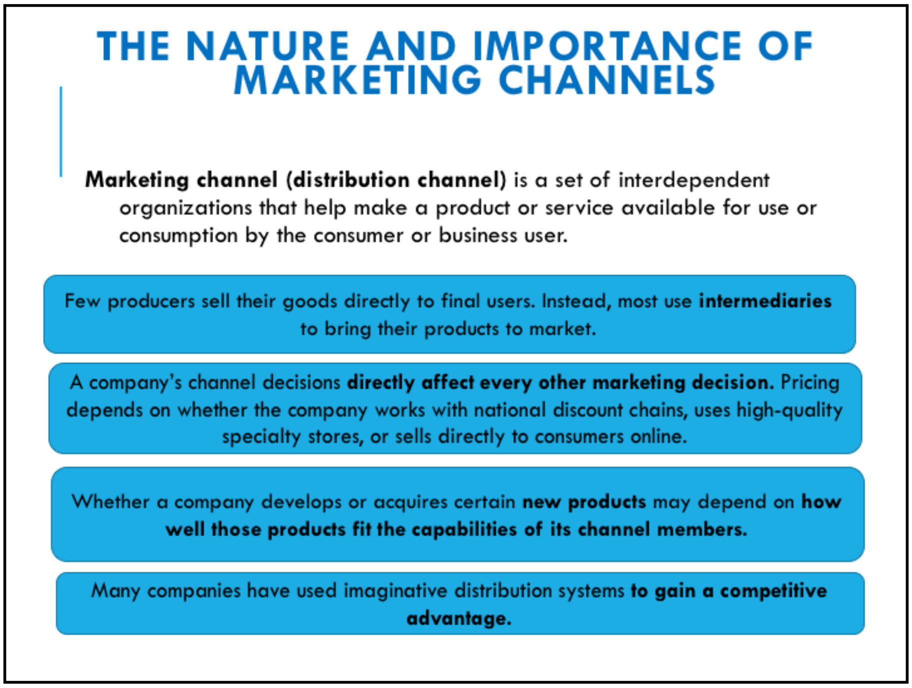
Value delivery network is composed of the **company, suppliers, distributors**, and, ultimately, **customers** who partner with each other to improve the performance of the entire system.

Yet, even a demand chain view of a business may be too limited because it takes a step-by-step, linear view of purchase-production-consumption activities. Instead, most large companies today are engaged in building and managing a complex, continuously evolving **value delivery network**

Yet, even a demand chain view of a business may be too limited because it takes a step-by-step, linear view of purchase-production-consumption activities. Instead, most large companies today are engaged in building and managing a complex, continuously evolving value delivery network.



MARKETING CHANNELS DELIVERING CUSTOMER VALUE
Value Chain
Supply Chain
Demand Chain
Purchasing
Manufacturing
Distribution
Marketing
Sales
Service
Supply chain
"make and sell"
Demand chain
"sense and respond"
too limited
planning starts by identifying the needs of target customers, to which the company responds by organizing a chain of resources and activities with the goal of creating customer value

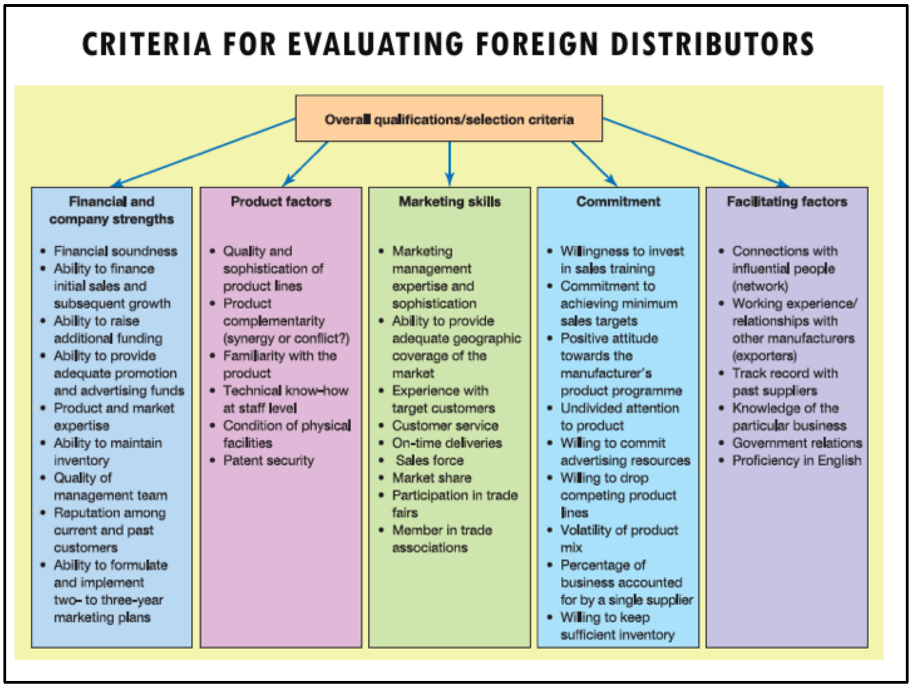


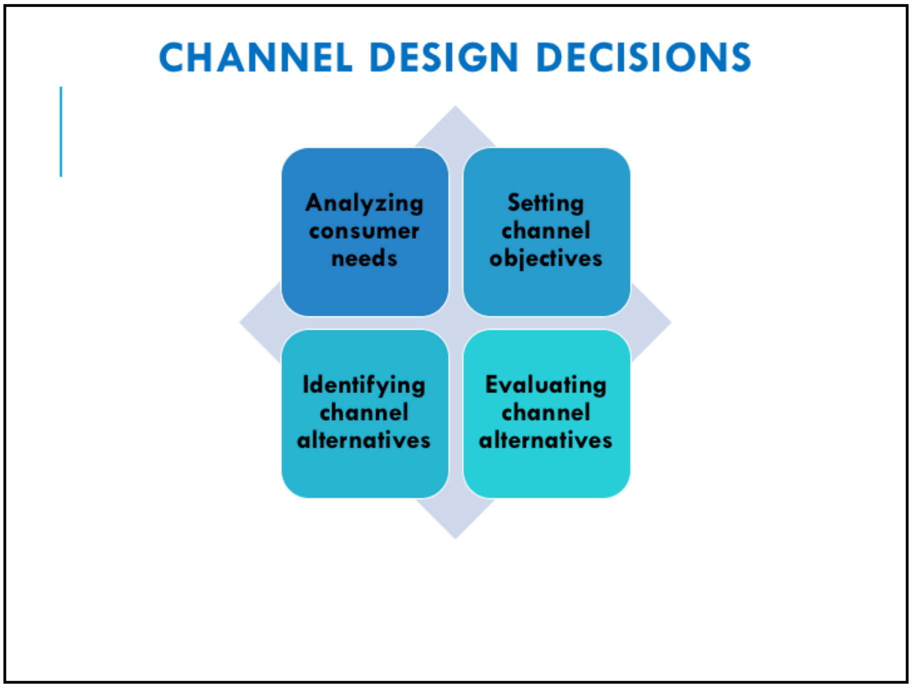
Few producers sell their goods directly to final users. Instead, most use intermediaries to bring their products to market. They try to forge a **marketing channel** (or **distribution channel**)—a set of interdependent organizations that help make a product or service available for use or consumption by the consumer or business user.

A company's channel decisions directly affect every other marketing decision. Pricing depends on whether the company works with national discount chains, uses high-quality specialty stores, or sells directly to consumers online.. Whether a company develops or acquires certain new products may depend on how well those products fit the capabilities of its channel members.

Examples include: Enterprise Rent-A-Car revolutionized the cMany companies have used imaginative distribution systems to gain a competitive advantage. ar-rental business, Apple selling music for the iPod via the Internet on iTunes and Amazon.com forever changed the face of retailing and became the Walmart of the Internet.

Distribution channel decisions often involve long-term commitments to other firms. Therefore, management must design its channels carefully, with an eye on both today's likely selling environment and tomorrow's as well.

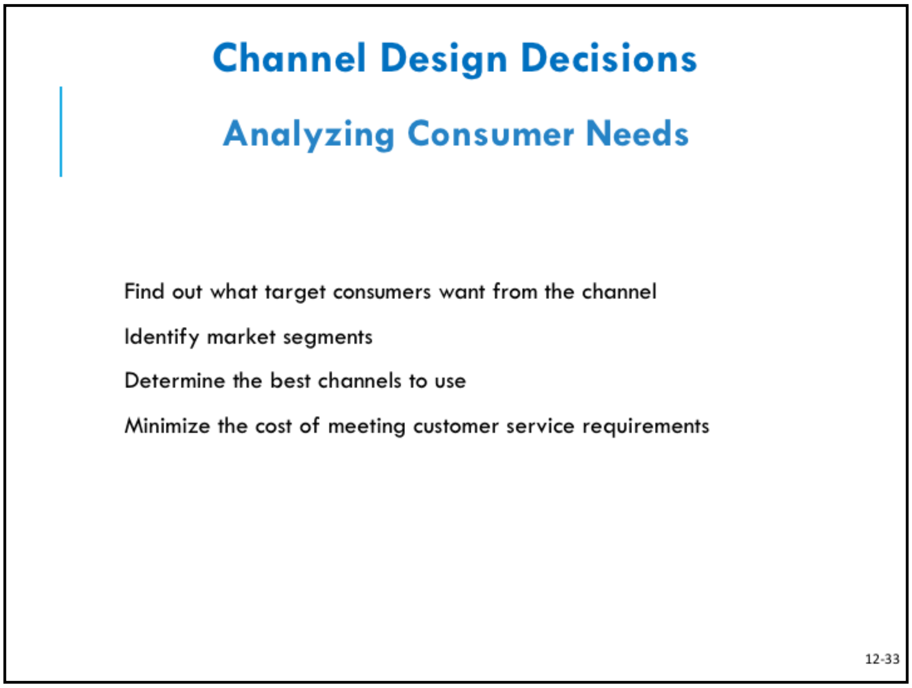

CRITERIA FOR EVALUATING FOREIGN DISTRIBUTORS
Overall qualifications/selection criteria
Financial and company strengths
• Financial soundness
• Ability to finance initial sales and subsequent growth
• Ability to raise additional funding
• Ability to provide adequate promotion and advertising funds
• Product and market expertise
• Ability to maintain inventory
• Quality of management team
• Reputation among current and past customers
• Ability to formulate and implement two- to three-year marketing plans
Product factors
• Quality and sophistication of product lines
• Product complementarity (synergy or conflict?)
• Familiarity with the product
• Technical know-how at staff level
• Condition of physical facilities
• Patent security
Marketing skills
• Marketing management expertise and sophistication
• Ability to provide adequate geographic coverage of the market
• Experience with target customers
• Customer service
• On-time deliveries
• Sales force
• Market share
• Participation in trade fairs
• Member in trade associations
Commitment
• Willingness to invest in sales training
• Commitment to achieving minimum sales targets
• Positive attitude towards the manufacturer's product programme
• Undivided attention to product
• Willing to commit advertising resources
• Willing to drop competing product lines
• Volatility of product mix
• Percentage of business accounted for by a single supplier
• Willing to keep sufficient inventory
Facilitating factors
• Connections with influential people (network)
• Working experience/ relationships with other manufacturers (exporters)
• Track record with past suppliers
• Knowledge of the particular business
• Government relations
• Proficiency in English



We now look at several channel design decisions manufacturers face. In designing marketing channels, manufacturers struggle between what is ideal and what is practical.

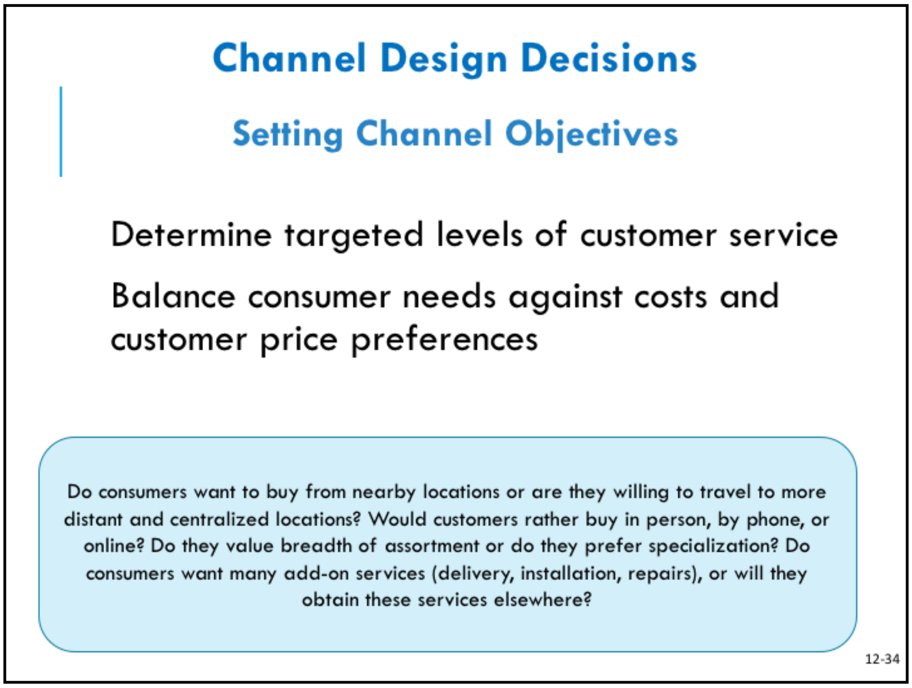
A new firm with limited capital usually starts by selling in a limited market area. In this case, the problem is not deciding on the best channels but how to convince one or a few good intermediaries to handle the line.

If successful, the new firm can branch out to new markets through existing intermediaries. In smaller markets, the firm might sell directly to retailers; in larger markets, it might sell through distributors. In one part of the country, it might grant exclusive franchises; in another, it might sell through all available outlets. Then it might add an Internet store that sells directly to hard-to-reach customers. In this way, channel systems often evolve to meet market opportunities and conditions.



Usually, a company can identify several segments wanting different levels of service. The company should decide which segments to serve and the best channels to use in each case. In each segment, the company wants to minimize the total channel cost of meeting customer service requirements.

Providing the fastest delivery, the greatest assortment, and the most services may not be possible, practical, or desired. The company and its channel members may not have the resources or skills needed to provide all the desired services. Also, providing higher levels of service results in higher costs for the channel and higher prices for consumers. The success of modern discount retailing shows that consumers will often accept lower service levels in exchange for lower prices.

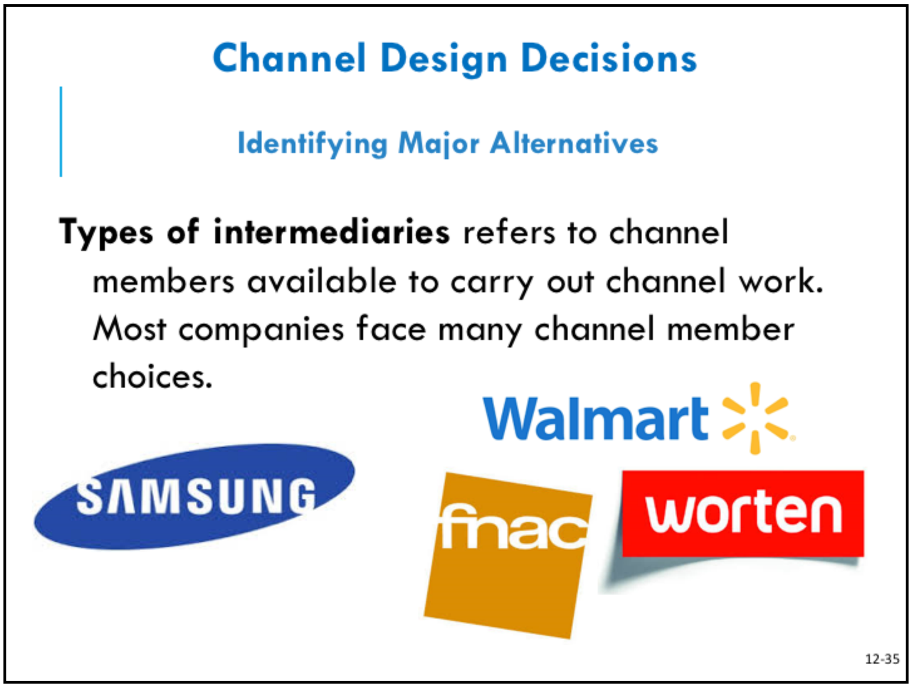


The company’s channel objectives are influenced by the nature of the company, its products, its marketing intermediaries, its competitors, and the environment.

To determine targeted levels of customer service, companies must answer the following questions: Do consumers want to buy from nearby locations or are they willing to travel to more distant and centralized locations? Would customers rather buy in person, by phone, or online? Do they value breadth of assortment or do they prefer specialization? Do consumers want many add-on services (delivery, installation, repairs), or will they obtain these services elsewhere?

For example, the company’s size and financial situation determine which marketing functions it can handle itself and which it must give to intermediaries. In some cases, a company may want to compete in or near the same outlets that carry competitors’ products.

Finally, environmental factors such as economic conditions and legal constraints may affect channel objectives and design. For example, in a depressed economy, producers will want to distribute their goods in the most economical way, using shorter channels and dropping unneeded services that add to the final price of the goods. The bjective is to consumer needs against costs and customer price preferences.

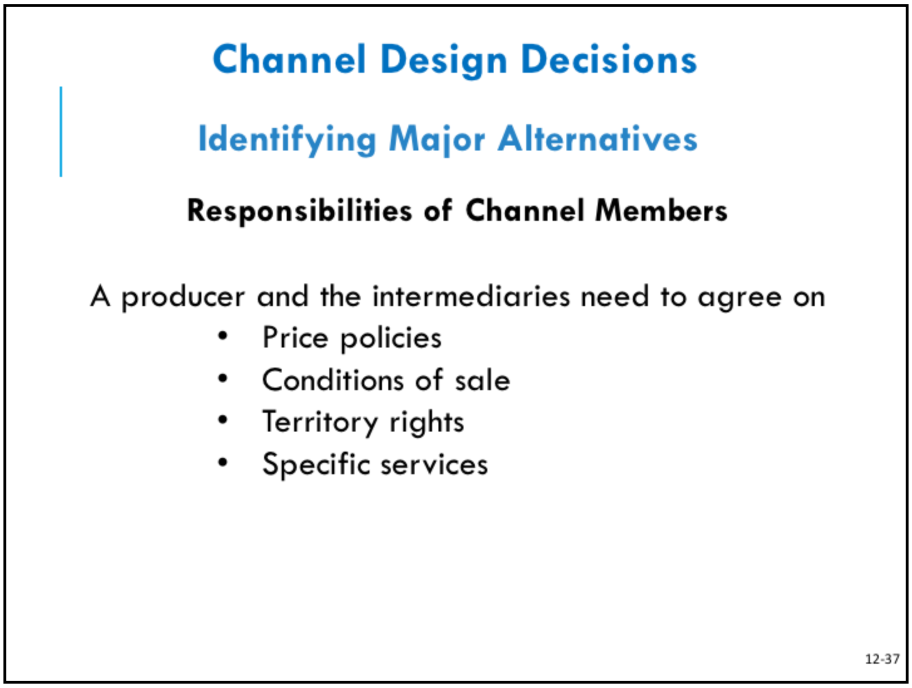


For example, until recently, Dell sold directly to final consumers and business buyers only through its sophisticated phone and Internet marketing channel. It also sold directly to large corporate, institutional, and government buyers using its direct sales force.

However, to reach more consumers and match competitors such as Samsung and Apple, Dell now sells indirectly through retailers such as Best Buy, Staples, and Walmart. It also sells indirectly through value-added resellers, independent distributors, and dealers that develop computer systems and applications tailored to the special needs of small- and medium-sized business customers.

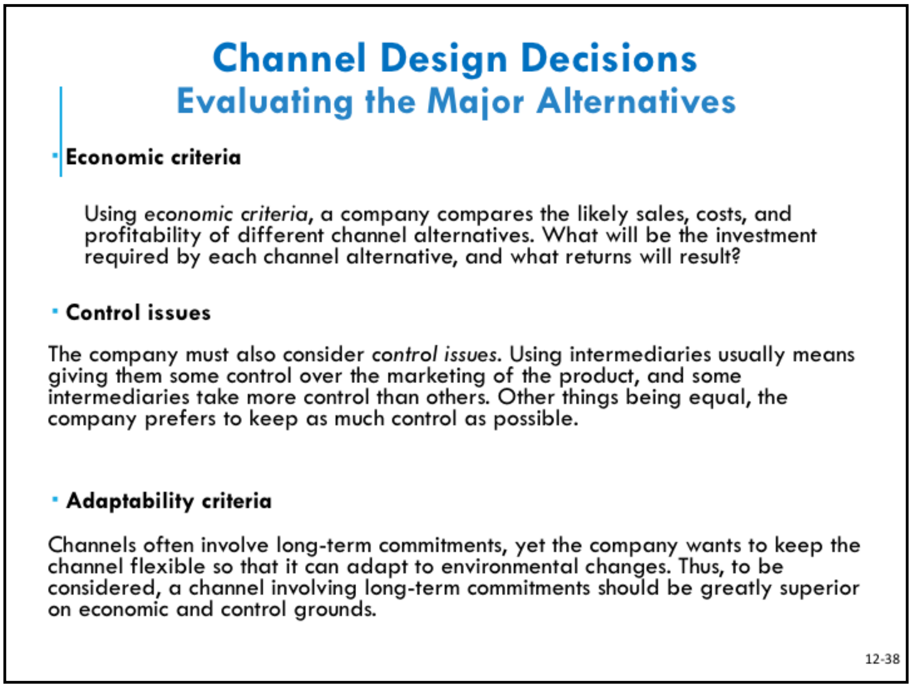
Using many types of resellers in a channel provides both benefits and drawbacks. For example, by selling through retailers and value-added resellers in addition to its own direct channels, Dell can reach more and different kinds of buyers. However, the new channels will be more difficult to manage and control and the direct and indirect channels will compete with each other causing potential conflict.

In fact, Dell often finds itself “stuck in the middle,” with its direct sales reps complaining about competition from retail stores, whereas its value-added resellers complain that the direct sales reps are undercutting their business.



In addition, the producer should establish a list price and a fair set of discounts for the intermediaries. It must define each channel member's territory, and it should be careful about where it places new resellers.

Mutual services and duties need to be spelled out carefully, especially in franchise and exclusive distribution channels.



Using *economic criteria*, a company compares the likely sales, costs, and profitability of different channel alternatives. What will be the investment required by each channel alternative, and what returns will result?

The company must also consider *control issues*. Using intermediaries usually means giving them some control over the marketing of the product, and some intermediaries take more control than others. Other things being equal, the company prefers to keep as much control as possible.

Finally, the company must apply *adaptability criteria*. Channels often involve long-term commitments, yet the company wants to keep the channel flexible so that it can adapt to environmental changes. Thus, to be considered, a channel involving long-term commitments should be greatly superior on economic and control grounds.


MARKET COVERAGE
* COBERTURA DE MERCADO
The amount of market coverage that a channel member provides is important.
Coverage is a flexible term. It can refer to geographical areas of a country (such as cities and major towns) or the number of retail outlets (as a percentage of all retail outlets).
Regardless of the market coverage measure(s) used the company has to create a distribution network (dealers, distributors and retailers) to meet its coverage goals.

MARKET COVERAGE

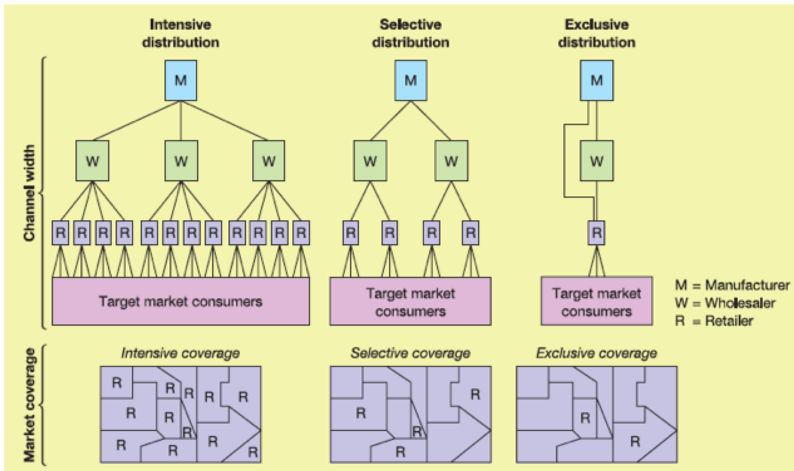
Three different approaches are available:

1. **Intensive coverage.** This calls for distributing the product through the largest number of different types of intermediary and the largest number of individual intermediaries of each type.

2. **Selective coverage.** This entails choosing a number of intermediaries for each area to be penetrated.

3. **Exclusive coverage.** This involves choosing only one intermediary in a market.

STRATEGIES FOR MARKET COVERAGE




CONTINENTE


pepsi


INTENSIVE
Distribution
Increased sales
Large number
of retailers
Buzzle.com


SUMOL
35%
20%
25%
30%
pepsi
FRIZE


SELECTIVE DISTRIBUTION
Ex: Smart watches


LONGCHAMP


Selective Distribution
• Use of limited outlets within a given geographic area
• Select retailers that maintain the image of the product and are willing to promote it
• Examples include: Malls, Department Stores, Specialty Stores
Products include:
Clothing
Appliances
Furniture
Neiman Marcus
TOMMY HILFIGER

Exclusive Distribution

-Few intermediaries(usually only one with more control)

-When a single outlet is given an exclusive franchise to sell the product in a geographic area, the arrangement is referred to as exclusive distribution. Products such as specially automobiles, some major appliances, certain brands of furniture, and lines of clothing that enjoy a high degree of brand loyally are likely to be distributed on an exclusive basis.

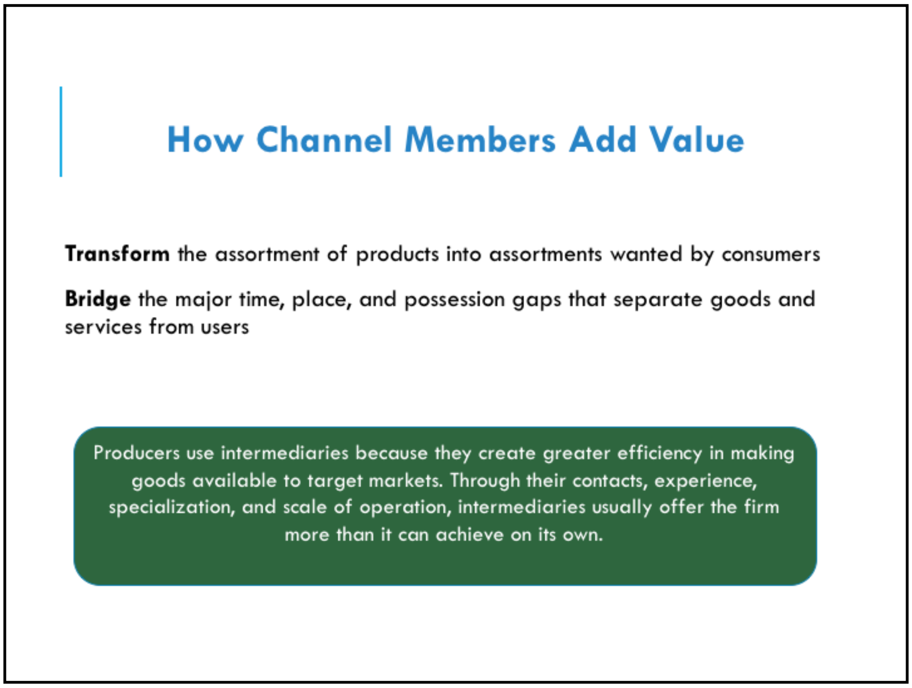
Exclusive distribution

- Advantage: More control the market, more aggressive middleman, provide the products with a prestigious image because it can't be found everywhere, high brand loyalty
- Disadvantage: difficult to build and maintain a high level of brand image, betting on one dealer in each market, only suitable for high price & margin & low volume products


HERMÈS

JANEFINDS
HERMES BIRKIN 25
HIMALAYAN WHITE
NILOTICUS CROCODILE
PALLADIUM HARDWARE

169 999,95 $ USD



Why do producers give some of the selling job to channel partners? After all, doing so means giving up some control over how and to whom they sell their products.

Producers use intermediaries because they create greater efficiency in making goods available to target markets. Through their contacts, experience, specialization, and scale of operation, intermediaries usually offer the firm more than it can achieve on its own.

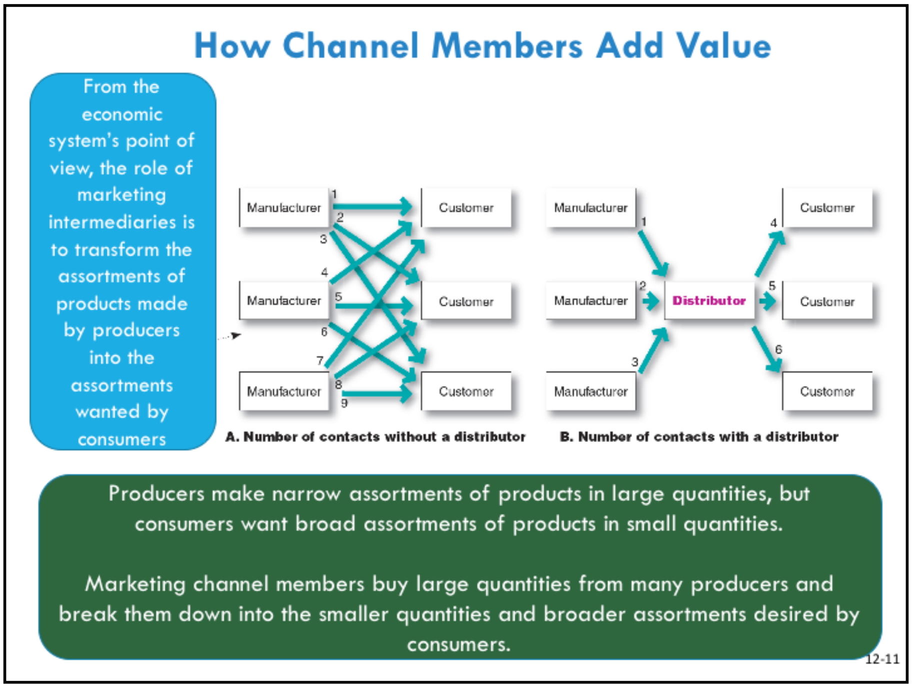
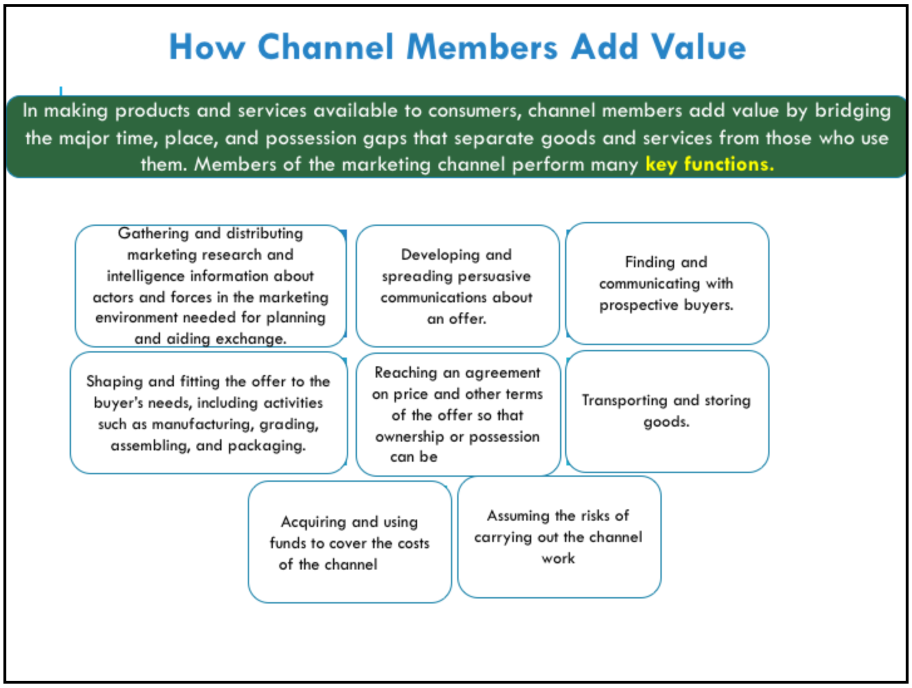


Figure 12.1 shows how using intermediaries can provide economies. Figure 12.1A shows three manufacturers, each using direct marketing to reach three customers. This system requires nine different contacts. Figure 12.1B shows the three manufacturers working through one distributor, which contacts the three customers. This system requires only six contacts. In this way, intermediaries reduce the amount of work that must be done by both producers and consumers.

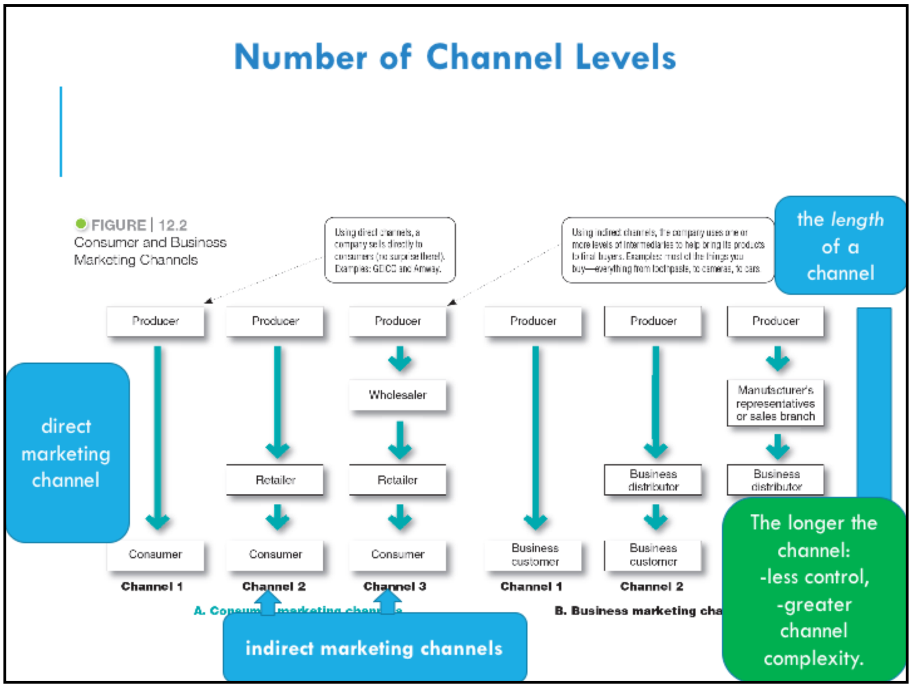
From the economic system's point of view, the role of marketing intermediaries is to transform the assortments of products made by producers into the assortments wanted by consumers. Producers make narrow assortments of products in large quantities, but consumers want broad assortments of products in small quantities. Marketing channel members buy large quantities from many producers and break them down into the smaller quantities and broader assortments desired by consumers.



In making products and services available to consumers, channel members add value by bridging the major time, place, and possession gaps that separate goods and services from those who use them. Members of the marketing channel perform many key functions.

> ***Information:*** Gathering and distributing marketing research and intelligence information about actors and forces in the marketing environment needed for planning and aiding exchange.
> ***Promotion:*** Developing and spreading persuasive communications about an offer.
> ***Contact:*** Finding and communicating with prospective buyers.
> ***Matching:*** Shaping and fitting the offer to the buyer's needs, including activities such as manufacturing, grading, assembling, and packaging.
> ***Negotiation:*** Reaching an agreement on price and other terms of the offer so that ownership or possession can be transferred.
> ***Physical distribution:*** Transporting and storing goods.
> ***Financing:*** Acquiring and using funds to cover the costs of the channel work.
> ***Risk taking:*** Assuming the risks of carrying out the channel work

The question is not *whether* these functions need to be performed—they must be—but rather *who* will perform them. To the extent that the manufacturer performs these functions, its costs go up; therefore, its prices must be higher. When some of these functions are shifted to intermediaries, the producer's costs and prices may be lower, but the intermediaries must charge more to cover the costs of their work. In dividing the work of the channel, the various functions should be assigned to the channel members who can add the most value for the cost.

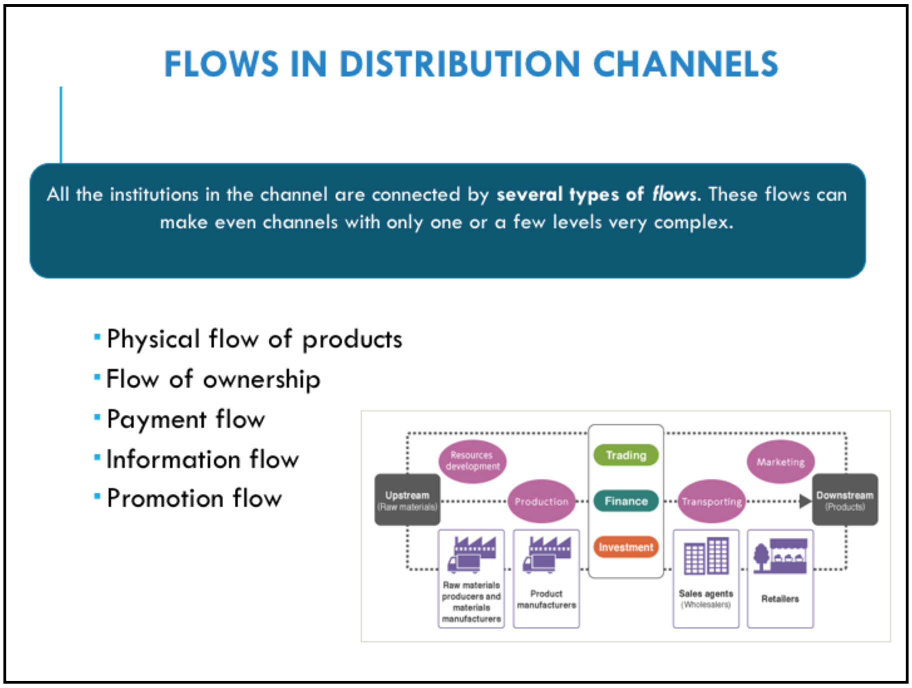


Companies can design their distribution channels to make products and services available to customers in different ways. Each layer of marketing intermediaries that performs some work in bringing the product and its ownership closer to the final buyer is a **channel level**. Because both the producer and the final consumer perform some work, they are part of every channel.

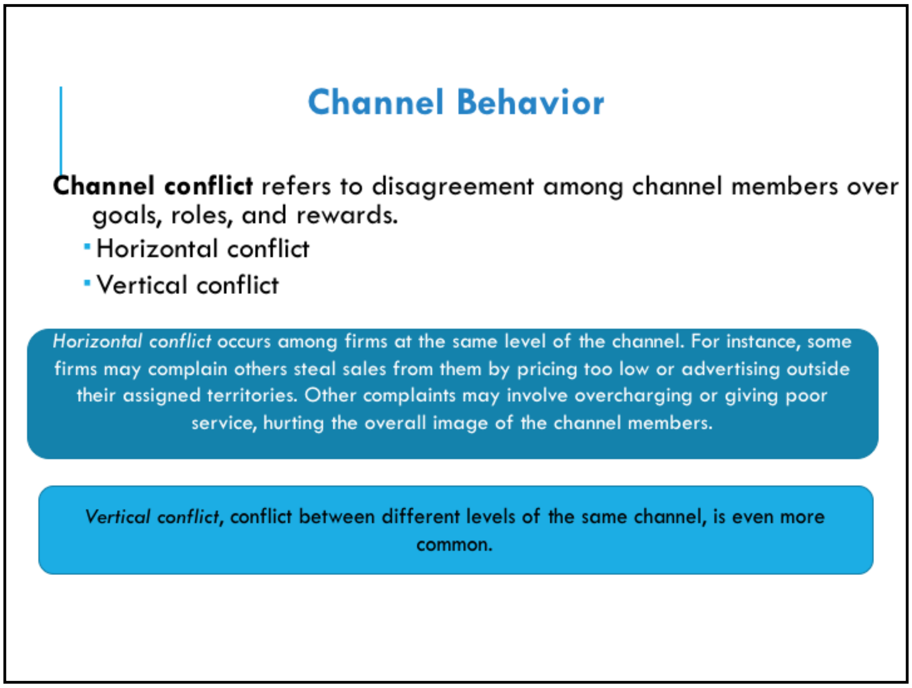
The *number of intermediary levels* indicates the *length* of a channel. Figure 12.2 shows both consumer and business channels of different lengths. Figure 12.2A shows several common consumer distribution channels. Channel 1, called a **direct marketing channel**, has no intermediary levels. The remaining channels in Figure 12.2A are **indirect marketing channels**, containing one or more intermediaries.

Figure 12.2B shows some common business distribution channels. The business marketer can use its own sales force to sell directly to business customers. Or it can sell to various types of intermediaries, who in turn sell to these customers.

Although consumer and business marketing channels with even more levels can sometimes be found, these are less common. From the producer's point of view, a greater number of levels means less control and greater channel complexity.

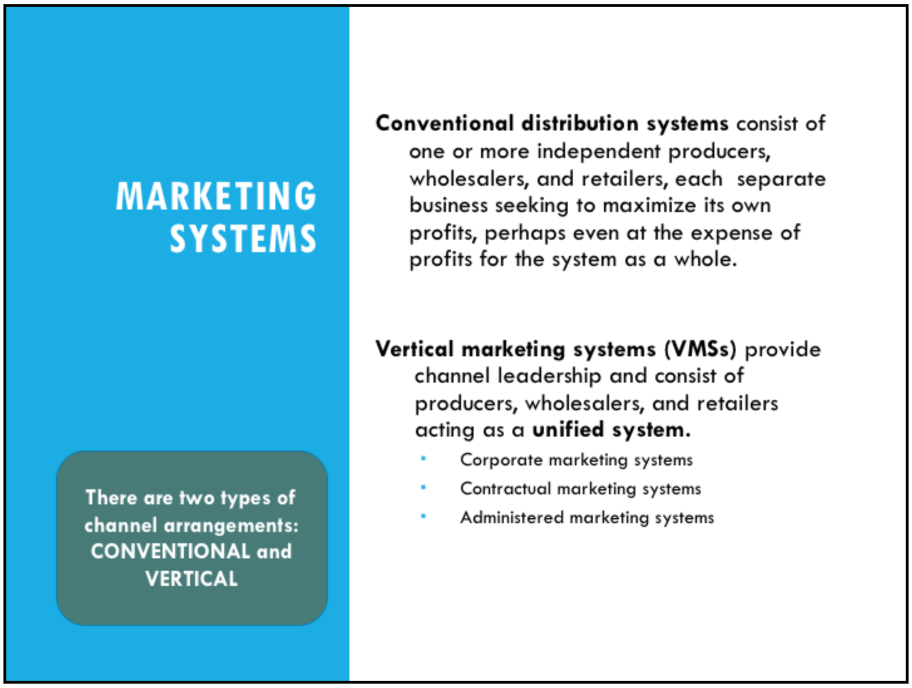


All the institutions in the channel are connected by several types of *flows*. These flows can make even channels with only one or a few levels very complex.



Horizontal conflict occurs among firms at the same level of the channel. For instance, some firms may complain others steal sales from them by pricing too low or advertising outside their assigned territories. Other complaints may involve overcharging or giving poor service, hurting the overall image of the channel members.

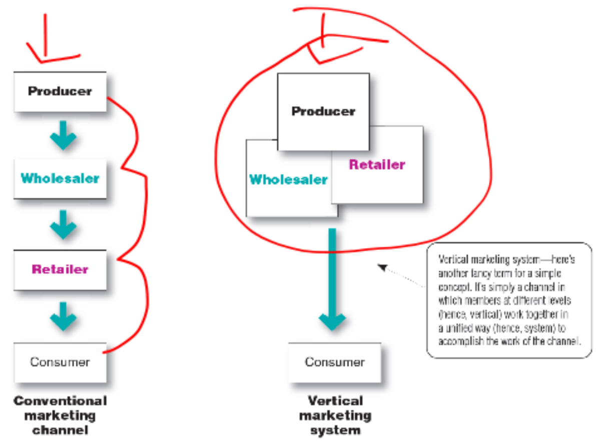
Vertical conflict, conflict between different levels of the same channel, is even more common. For example, McDonald's has recently faced growing conflict with its corps of almost 3,000 independent franchisees. In a recent company Webcast, based on rising customer complaints that service isn't fast or friendly enough, McDonald's told its franchisees that their cashiers need to smile more. At the same time, it seems, the franchisees weren't very happy with McDonald's, either because of a recent slowdown in systemwide sales that has both sides on edge.

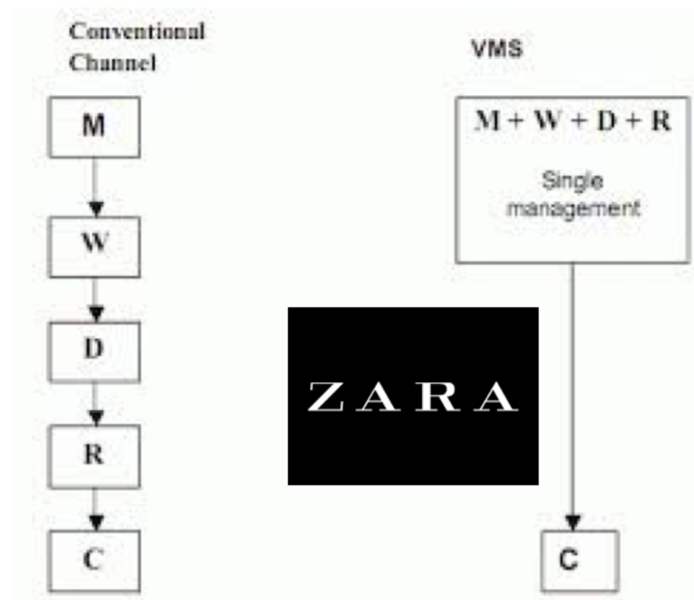


Historically, *conventional distribution channels* have lacked leadership and power, often resulting in damaging conflict and poor performance. One of the biggest channel developments over the years has been the emergence of *vertical marketing systems* that provide channel leadership. On the next slide, **Figure 12.3** contrasts the two types of channel arrangements.

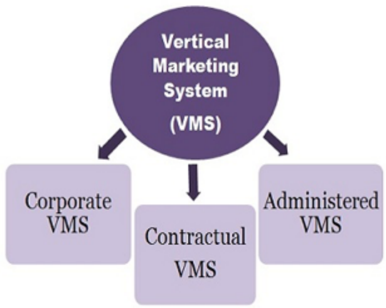
Conventional vs. Vertical Marketing System

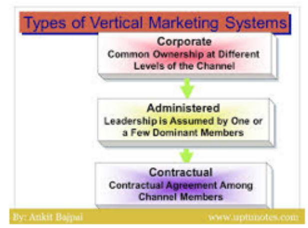
FIGURE | 12.3
Comparison of Conventional Distribution Channel with Vertical Marketing System

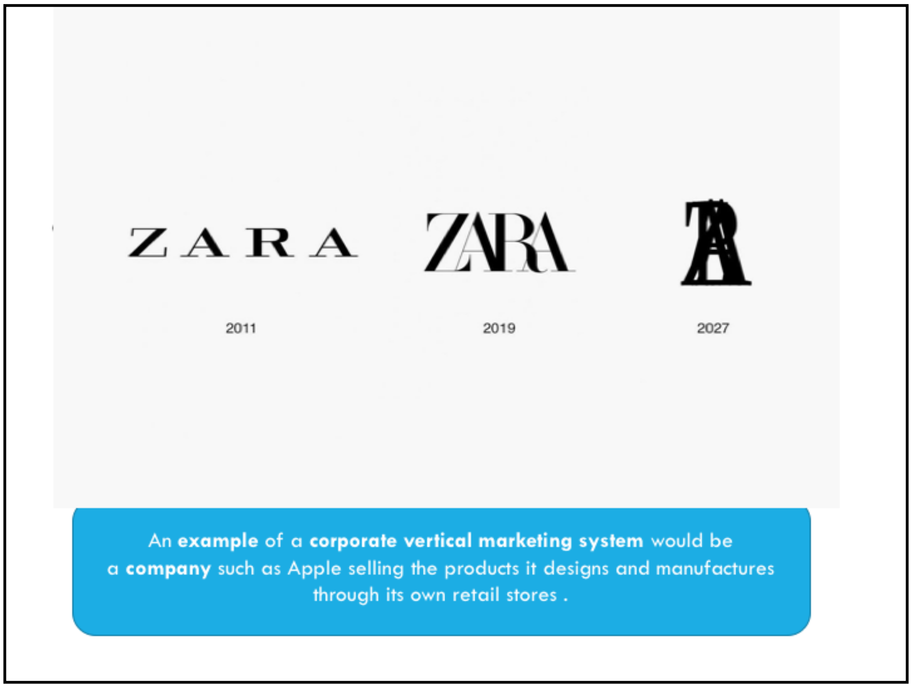



Conventional Channel
M
W
D
R
C
VMS
M + W + D + R
Single management
ZARA
C

TYPES OF VERTICAL MARKETING SYSTEMS



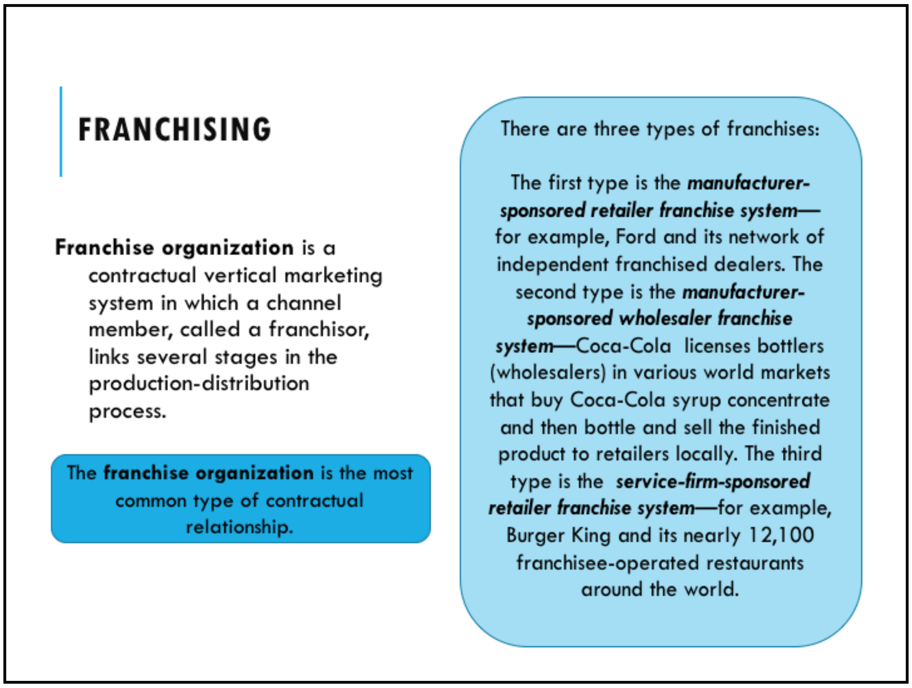




A **corporate VMS** integrates successive stages of production and distribution under single ownership. Coordination and conflict management are attained through regular organizational channels.

A **contractual VMS** consists of independent firms at different levels of production and distribution who join together through contracts to obtain more economies or sales impact than each could achieve alone. Channel members coordinate their activities and manage conflict through contractual agreements.

FRANCHISING



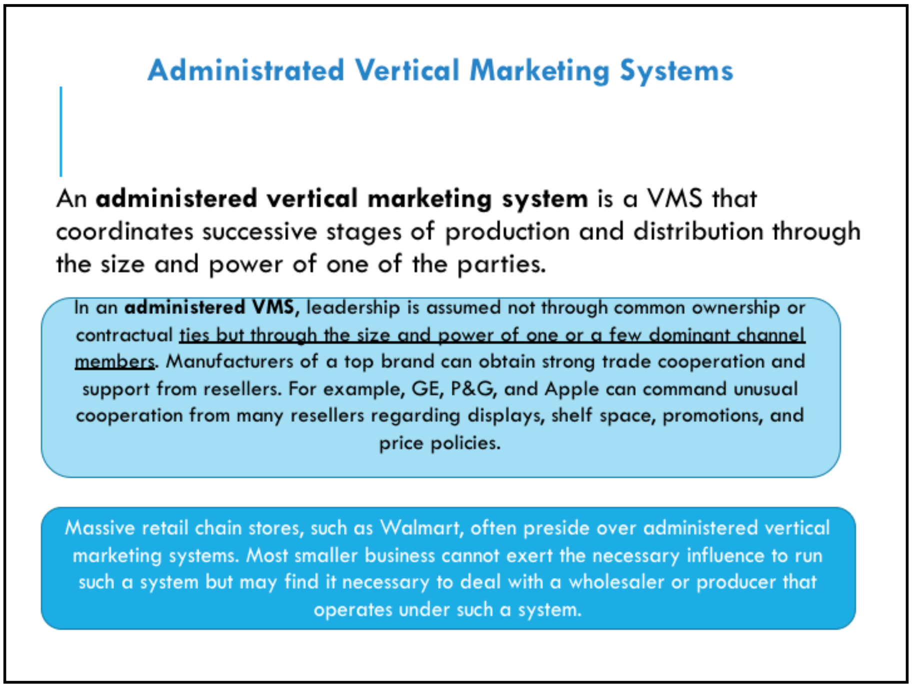
Franchising systems: Almost every kind of business has been franchised. For example, Anytime Fitness, "The club for busy people," brings convenient, affordable, and fun fitness to nearly 2 million members through 2,500 franchise outlets around the nation and world.

The **franchise organization** is the most common type of contractual relationship. In the United States alone, some 770,000 franchise outlets account for more than $830 billion of economic output. Industry analysts estimate that a new franchise outlet opens somewhere in the United States every eight minutes and that about one out of every 12 retail business outlets is a franchised business.

There are three types of franchises. The first type is the *manufacturer-sponsored retailer franchise system*—for example, Ford and its network of independent franchised dealers. The second type is the *manufacturer-sponsored wholesaler franchise system*—Coca-Cola licenses bottlers (wholesalers) in various world markets that buy Coca-Cola syrup concentrate and then bottle and sell the finished product to retailers locally. The third type is the *service-firm-sponsored retailer franchise system*—for example, Burger King and its nearly 12,100 franchisee-operated restaurants around the world. Other examples can be found in everything from auto rentals, apparel retailers, and motels to supplemental education (Huntington Learning Center, Kumon) and personal services (Great Clips, Mr. Handyman, Anytime Fitness).

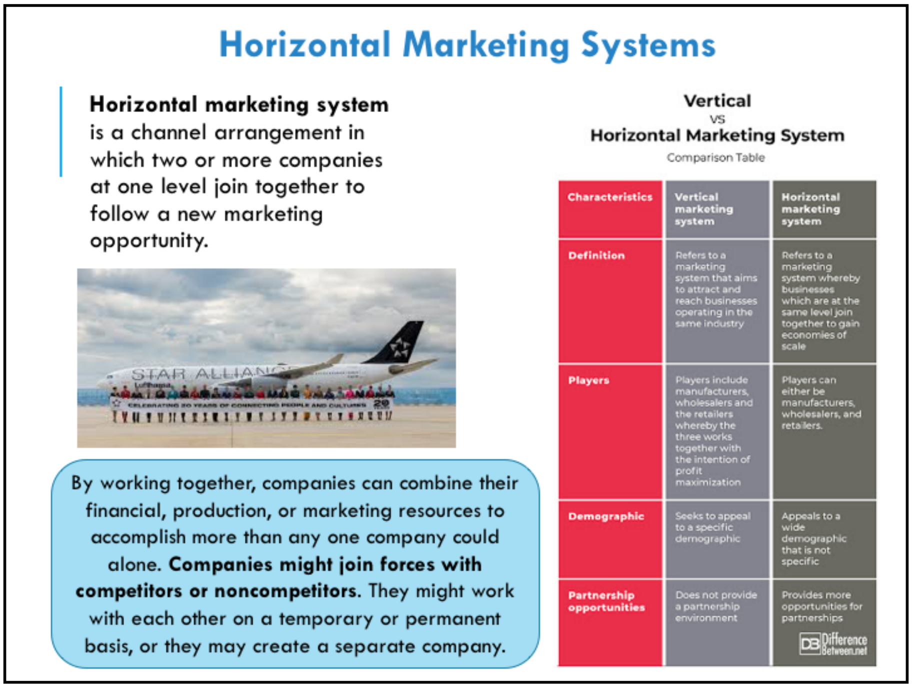
The fact that most consumers cannot tell the difference between contractual and corporate VMSs shows how successfully the contractual organizations compete with corporate chains.

The next chapter presents a fuller discussion of the various contractual VMSs.



In an **administered VMS**, leadership is assumed not through common ownership or contractual ties but through the size and power of one or a few dominant channel members. Manufacturers of a top brand can obtain strong trade cooperation and support from resellers. For example, GE, P&G, and Apple can command unusual cooperation from many resellers regarding displays, shelf space, promotions, and price policies.

In turn, large retailers such as Walmart, Home Depot, Kroger, and Walgreens can exert strong influence on the many manufacturers that supply the products they sell. For example, in the normal push and pull between Walmart and its consumer goods suppliers, giant Walmart—the biggest grocer in the United States with a 25 percent share of all U.S. grocery sales—usually gets its way so maintaining a strong relationship with the giant retailer is crucial.

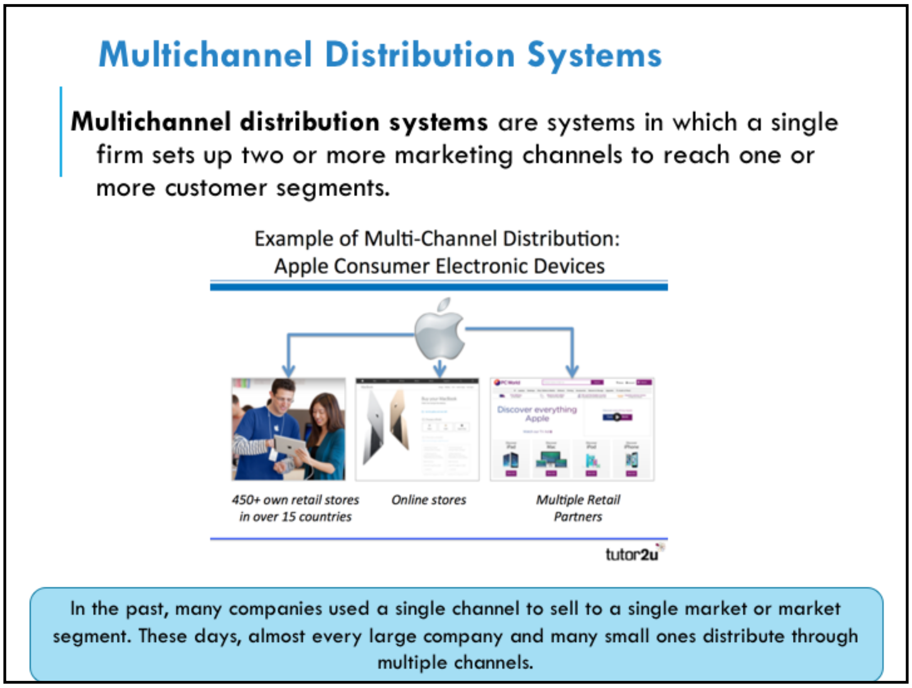


Discussion Question

Can you think of an example where two companies join for a horizontal marketing system? Students might notice that McDonald's is in Wal-Mart or their gas station also has a coffee franchise.

By working together, companies can combine their financial, production, or marketing resources to accomplish more than any one company could alone. Companies might join forces with competitors or noncompetitors. They might work with each other on a temporary or permanent basis, or they may create a separate company. For example, competing big media companies Fox Broadcasting, Disney-ABC, and NBCUniversal (Comcast) jointly own and market Hulu, and together they compete more effectively against digital streaming competitors such as Netflix. Walmart partners with noncompetitor McDonald's to place "express" versions of McDonald's restaurants in Walmart stores. McDonald's benefits from Walmart's heavy store traffic, and Walmart keeps hungry shoppers from needing to go elsewhere to eat.

Such channel arrangements also work well globally. For example, competitors General Mills and Nestlé operate a joint venture—Cereal Partners Worldwide—to market General Mills BigG cereal brands in 130 countries outside North America. General Mills supplies a kitchen cabinet full of quality cereal brands, whereas Nestlé contributes its extensive international distribution channels and local market knowledge.



In the past, many companies used a single channel to sell to a single market or market segment. These days, almost every large company and many small ones distribute through multiple channels.

For example, John Deere sells its familiar green-and-yellow lawn and garden tractors, mowers, and outdoor power products to consumers and commercial users through several channels, including John Deere retailers, Lowe's home improvement stores, and online. It sells and services its tractors, combines, planters, and other agricultural equipment through its premium John Deere dealer network. And it sells large construction and forestry equipment through selected large, full-service John Deere dealers and their sales forces.

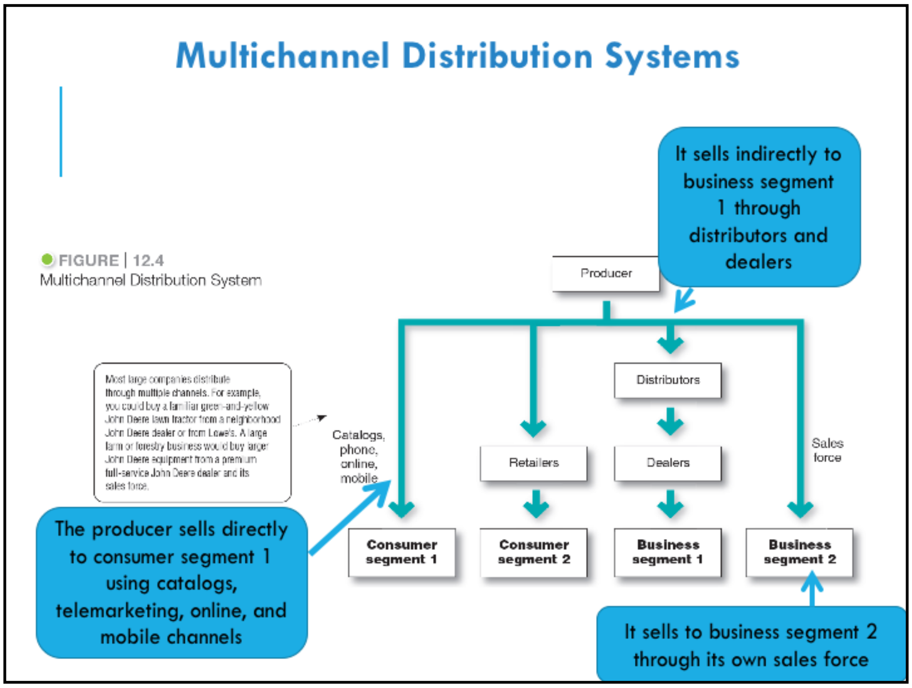
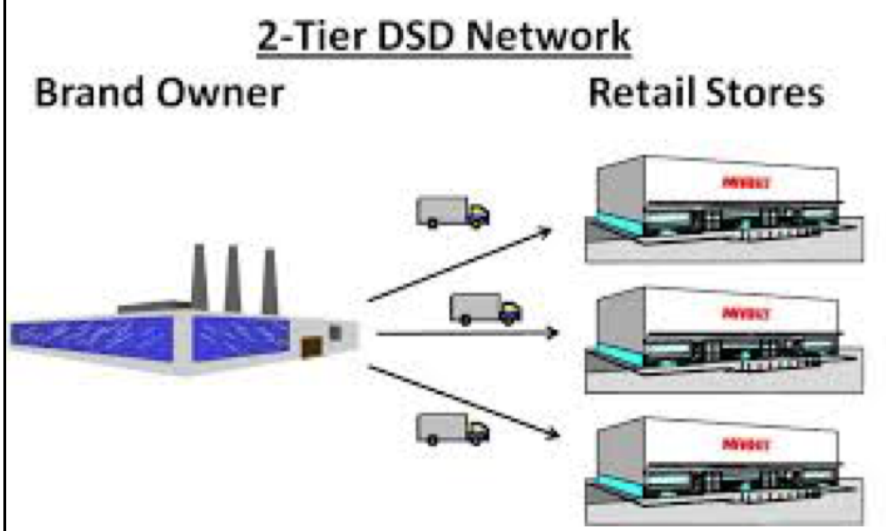


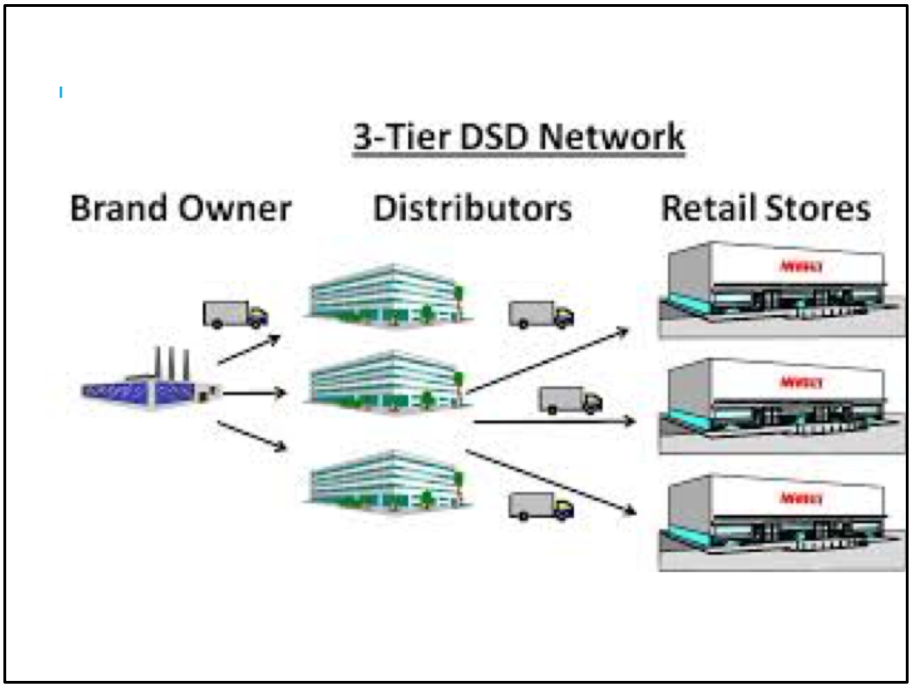
Figure 12.4 shows a multichannel marketing system. In the figure, the producer sells directly to consumer segment 1 using catalogs, telemarketing, online, and mobile channels and reaches consumer segment 2 through retailers. It sells indirectly to business segment 1 through distributors and dealers and to business segment 2 through its own sales force.

Multichannel distribution systems offer many advantages to companies facing large and complex markets. With each new channel, the company expands its sales and market coverage and gains opportunities to tailor its products and services to the specific needs of diverse customer segments.

But such multichannel systems are harder to control, and they can generate conflict as more channels compete for customers and sales. For example, when John Deere first began selling selected consumer products through Lowe's home improvement stores, many of its independent dealers complained loudly. To avoid such conflicts in its Internet marketing channels, the company routes all of its online sales to John Deere dealers.



Direct store delivery (DSD) is a key method of selling and distributing products for a large variety of industries, such as food, beverage, home personal care products, and wholesale and distribution, oil & gas, service industries to name industries beyond consumer products.


3-Tier DSD Network
Brand Owner
Distributors
Retail Stores

Changing Channel Organization

Disintermediation is the cutting out of marketing channel intermediaries by producers or the displacement of traditional resellers by new intermediaries.

Barnes & Noble—the giant that put so many independent bookstores out of business—was a latecomer with its struggling Nook e-reader and now finds itself locked in a battle for survival.

Changes in technology and the explosive growth of direct and online marketing are having a profound impact on the nature and design of marketing channels. One major trend is toward **disintermediation**—a big term with a clear message and important consequences. Thus, in many industries, traditional intermediaries are dropping by the wayside, as is the case with online marketers taking business from traditional brick-and-mortar retailers.

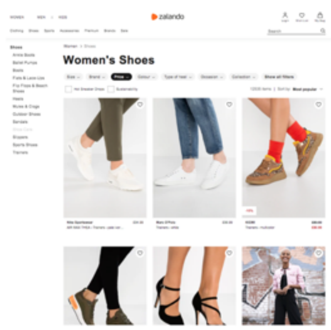
For example, online music download services such as iTunes and Amazon MP3 have pretty much put traditional music-store retailers out of business. In turn, streaming music services such as Spotify and Vevo are now disintermediating digital download services. Similarly, Amazon.com almost single-handedly bankrupted the nation's number-two bookseller, Borders, in less than 10 years. And the burgeoning online-only merchant has recently forced highly successful store retailers such as Best Buy to dramatically rethink their entire operating models. In fact, many retailing experts question whether stores like Best Buy can compete in the long run against online rivals.

Like resellers, to remain competitive, product and service producers must develop new channel opportunities, such as the Internet and other direct channels. However, developing these new channels often brings them into direct competition with their established channels, resulting in conflict. To ease this problem, companies often look for ways to make going direct a plus for the entire channel. For example, Black & Decker knows that many customers would prefer to buy online but this would create conflicts with important and powerful retail partners, such as Home Depot, Walmart, Sears, and Amazon.com. So, although Black & Decker's online site provides detailed information about the company's products, you can't buy a Black & Decker cordless drill, laser level, leaf blower, power garden shears, or anything else there. Instead, the Black & Decker site refers you to resellers' sites and stores. Thus, Black & Decker's direct marketing helps both the company and its channel partners.


iTunes
NETFLIX

amazon.com

zalando



Designing International Distribution Channels

Channel systems can vary from country to country.

Marketers must be able to adapt channel strategies to structures within each country.

The McDonald’s delivery guy: In cities like Beijing, Seoul, and Cairo, armies of motorbike delivery drivers outfitted in colorful uniforms and bearing food in specially designed boxes strapped to their backs make their way through bustling traffic to deliver Big Macs.

International marketers face many additional complexities in designing their channels. Each country has its own unique distribution system that has evolved over time and changes very slowly. These channel systems can vary widely from country to country. Thus, global marketers must usually adapt their channel strategies to the existing structures within each country.

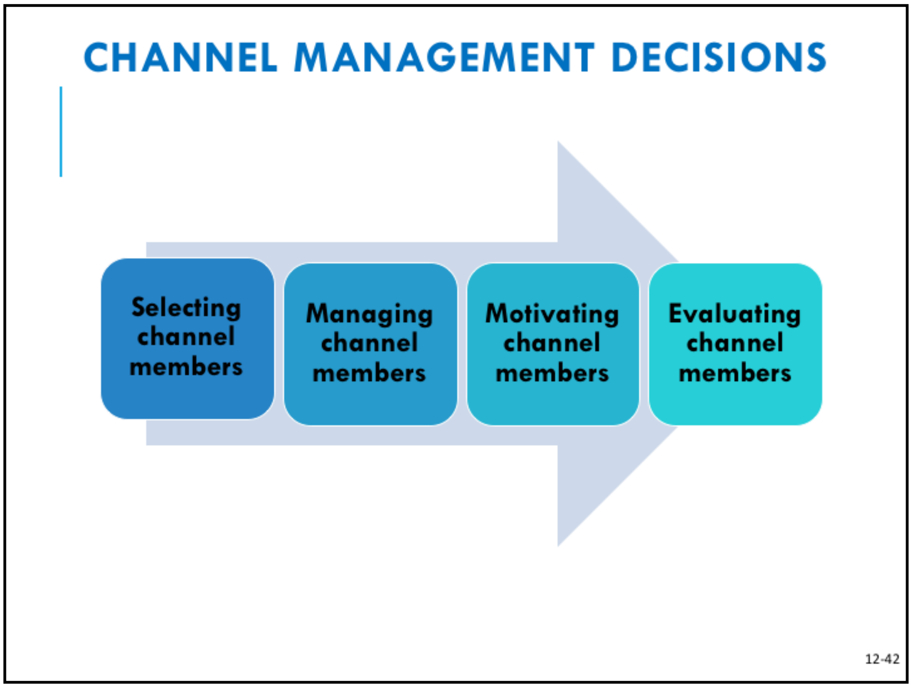
In some markets, the distribution system is complex and hard to penetrate, consisting of many layers and large numbers of intermediaries. For example, many Western companies find Japan’s distribution system difficult to navigate. It’s steeped in tradition and very complex, with many distributors touching the product before it arrives on the store shelf.

At the other extreme, distribution systems in developing countries may be scattered, inefficient, or altogether lacking. For example, China and India are huge, however, because of inadequate distribution systems, most companies can profitably access only a small portion of the population located in each country’s most affluent cities.

After years of effort, even Walmart executives admit that they have been unable to assemble an efficient supply chain in China.


NINHO
FORTIFICADO


Coca-Cola



Once the company has reviewed its channel alternatives and determined the best channel design, it must implement and manage the chosen channel. **Marketing channel management** calls for selecting, managing, and motivating individual channel members and evaluating their performance over time.

Discussion Question
If you were a manufacturer, how would you select channel members?
Most likely students will look at years in business, profitability, and other products served.

Selecting Channel Members
Producers vary in their ability to attract qualified marketing intermediaries. Some producers have no trouble signing up channel members and others have to work hard to line up enough qualified intermediaries.

For example, when Timex first tried to sell its inexpensive watches through regular jewelry stores, most jewelry stores refused to carry them. The company then managed to get its watches into mass-merchandise outlets.

Even established brands may have difficulty gaining and keeping their desired distribution, especially when dealing with powerful resellers. For example, you won't find P&G's Pampers diapers in a Costco store. After P&G declined to manufacture Costco's Kirkland store brand diapers a few years ago, Costco gave Pampers the boot.

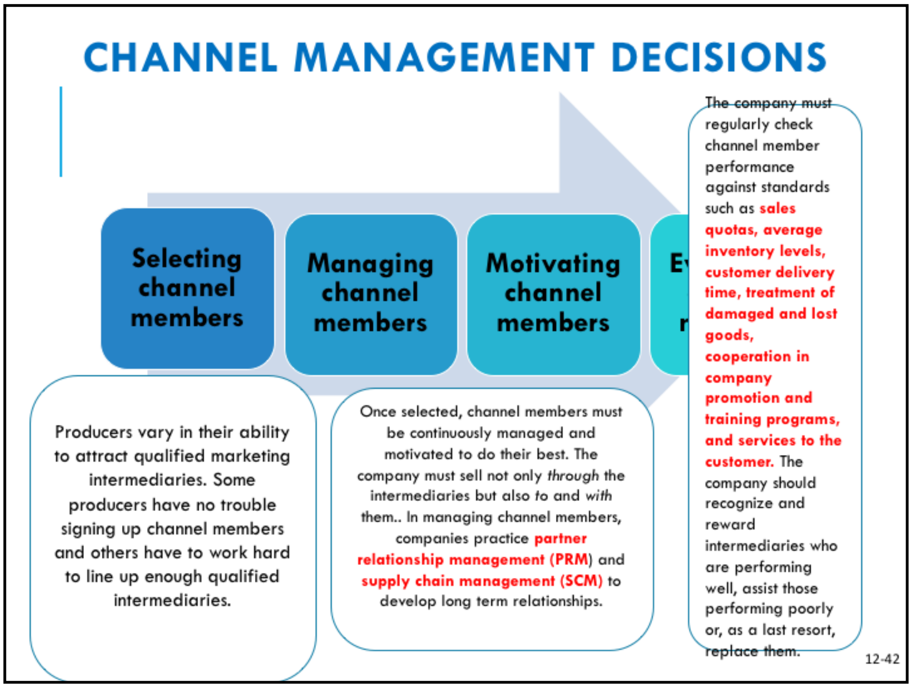
When selecting intermediaries, the company should determine what characteristics distinguish the better ones. It will want to evaluate each channel member's years in business, other lines carried, location, growth and profit record, cooperativeness, and reputation.

Discussion Question
How do you motivate and evaluate channel members?
Some students might have worked in stores where the salespeople were given rewards for excellent sales or service

Managing and Motivating Channel Members
Once selected, channel members must be continuously managed and motivated to do their best. The company must sell not only *through* the intermediaries but also *to* and *with* them.. In managing channel members, companies practice partner relationship management (PRM) and supply chain management (SCM) to develop long term relationships.

Evaluating Channel Members
The company must regularly check channel member performance against standards such as sales quotas, average inventory levels, customer delivery time, treatment of damaged and lost goods, cooperation in company promotion and training programs, and services to the customer. The company should recognize and reward intermediaries who are performing well, assist those performing poorly or, as a last resort, replace them.

Finally, companies need to be sensitive to the needs of their channel partners. Those who treat their partners poorly risk not only losing their support but also causing some legal problems. The next section describes various rights and duties pertaining to companies and other channel members.



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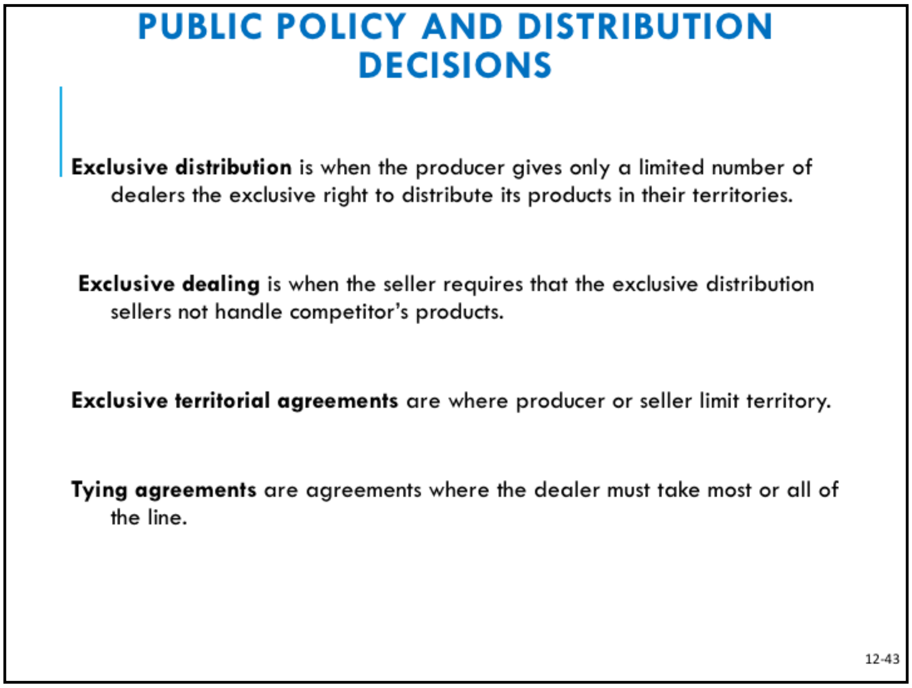
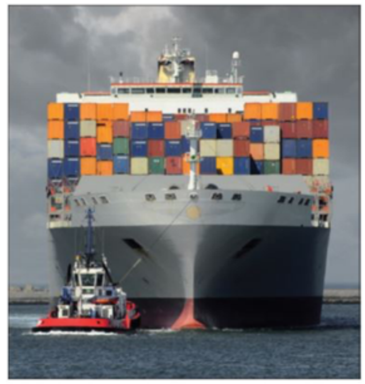


For the most part, companies are legally free to develop whatever channel arrangements suit them. In fact, the laws affecting channels seek to prevent the exclusionary tactics of some companies that might keep another company from using a desired channel. Most channel law deals with the mutual rights and duties of channel members once they have formed a relationship.

Producers are free to select their dealers, but their right to terminate dealers is somewhat restricted. In general, sellers can drop dealers "for cause." However, they cannot drop dealers if, for example, the dealers refuse to cooperate in a doubtful legal arrangement, such as exclusive dealing or tying agreements.

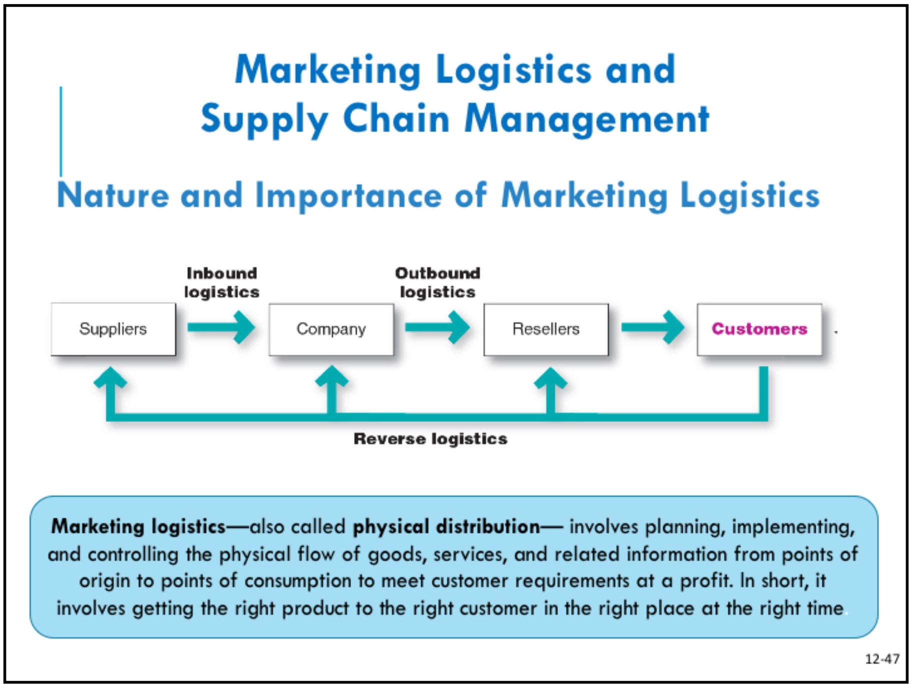
Marketing Logistics and Supply Chain Management

Marketing logistics (physical distribution) involves planning, implementing, and controlling the physical flow of goods, services, and related information from points of origin to points of consumption to meet consumer requirements at a profit.



In today’s global marketplace, selling a product is sometimes easier than getting it to customers. Companies must decide on the best way to store, handle, and move their products and services so that they are available to customers in the right assortments, at the right time, and in the right place.

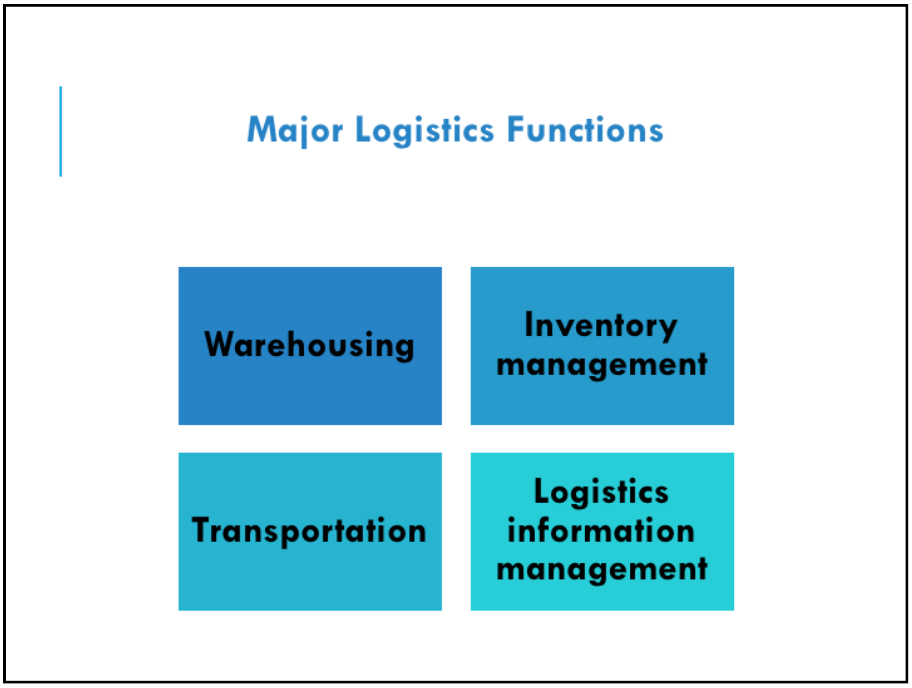
Logistics effectiveness has a major impact on both customer satisfaction and company costs. Here we consider the nature and importance of logistics management in the supply chain, the goals of the logistics system, major logistics functions, and the need for integrated supply chain management.



To some managers, marketing logistics means only trucks and warehouses. But modern logistics is much more than this. **Marketing logistics**—also called **physical distribution**— involves planning, implementing, and controlling the physical flow of goods, services, and related information from points of origin to points of consumption to meet customer requirements at a profit. In short, it involves getting the right product to the right customer in the right place at the right time.

In the past, physical distribution planners typically started with products at the plant and then tried to find low-cost solutions to get them to customers. However, today's customer-centered logistics starts with the marketplace and works backward to the factory or even to sources of supply.

Marketing logistics involves not only outbound logistics (moving products from the factory to resellers and ultimately to customers) but also inbound logistics (moving products and materials from suppliers to the factory) and reverse logistics (reusing, recycling, refurbishing, or disposing of broken, unwanted, or excess products returned by consumers or resellers).



Discussion Question
What is the importance of logistics?
Student responses should include:

- Competitive advantage by giving customers better service at lower prices.
- Cost savings to the company and its customers.
- Product variety requires improved logistics.
- Information technology has created opportunities for distribution efficiency.

Major Logistics Functions

Warehousing
Production and consumption cycles rarely match, so most companies must store their goods while they wait to be sold. A company must decide on *how many* and *what types* of warehouses it needs and *where* they will be located. The company might use either *storage warehouses* or *distribution centers*. Storage warehouses store goods for moderate to long periods. In contrast, **distribution centers** are designed to move goods rather than just store them.

Inventory Management
Inventory management also affects customer satisfaction. Managers must balance the costs of carrying larger inventories against resulting sales and profits. Many companies have greatly reduced their inventories and related costs through **just-in-time** logistics systems which result in substantial savings in inventory-carrying and inventory-handling costs. Companies using RFID know, at any time, exactly where a product is located physically within the supply chain. "Smart shelves" not only tell them when it's time to reorder but also place the order automatically with suppliers.

Transportation
The choice of transportation carriers affects the pricing of products, delivery performance, and the condition of goods when they arrive—all of which will affect customer satisfaction. In shipping goods to its warehouses, dealers, and customers, the company can choose among five main transportation modes: truck, rail, water, pipeline, and air, along with an alternative mode for digital products—the Internet. **Multimodal transportation** involves combining two or more modes of transportation.

Logistics Information Management
Companies manage their supply chains through information. Channel partners often link up to share information and make better joint logistics decisions. From a logistics perspective, flows of information, such as customer transactions, billing, shipment and inventory levels, and even customer data, are closely linked to channel performance. Companies need simple, accessible, fast, and accurate processes for capturing, processing, and sharing channel information. Information can be shared and managed in many ways, but most sharing takes place through *electronic data interchange* (*EDI*), the digital exchange of data between organizations, which is transmitted primarily via the Internet. Walmart, for example, requires EDI links with its more than 100,000 suppliers through its Retail Link sales data system.

Marketing Logistics and Supply Chain Management

Integrated Logistics Management

Integrated logistics management is the recognition that providing customer service and trimming distribution costs requires teamwork internally and externally.

12-50

Integrated logistics management: Logility's Voyager Solutions software offers tools for managing every aspect of the supply chain, from value chain collaboration to inventory optimization to transportation and logistics management.

Integrated Logistics Management
Today, more and more companies are adopting the concept of **integrated logistics management**. Inside, the company's various departments must work closely together to maximize its own logistics performance. Outside, the company must integrate its logistics system with those of its suppliers and customers to maximize the performance of the entire distribution network.

Cross-Functional Teamwork Inside the Company
Most companies assign responsibility for various logistics activities to many different departments—marketing, sales, finance, operations, and purchasing. Too often, each function tries to optimize its own logistics performance without regard for the activities of the other functions. Because distribution activities involve strong trade-offs, decisions by different functions must be coordinated to achieve better overall logistics performance.

Building Logistics Partnerships
Companies must do more than improve their own logistics. They must also work with other channel partners to improve whole-channel distribution. The members of a marketing channel are linked closely in creating customer value and building customer relationships. One company's distribution system is another company's supply system. The success of each channel member depends on the performance of the entire supply chain. Smart companies coordinate their logistics strategies and forge strong partnerships with suppliers and customers to improve customer service and reduce channel costs. Many companies have created *cross-functional* and *cross-company teams.* Other companies partner through *shared projects*. The point is that all supply chain members must work together in the cause of bringing value to final consumers.

Third-Party Logistics
Although most big companies love to make and sell their products, many loathe the associated logistics "grunt work." A growing number of firms now outsource some or all of their logistics to **third-party logistics (3PL) providers** such as Ryder, Penske Logistics, BAX Global, DHL Logistics, FedEx Logistics, and UPS Business Solutions. Outsourced logistics providers can help companies improve their own logistics systems or even take over and manage part or all of their logistics operations.