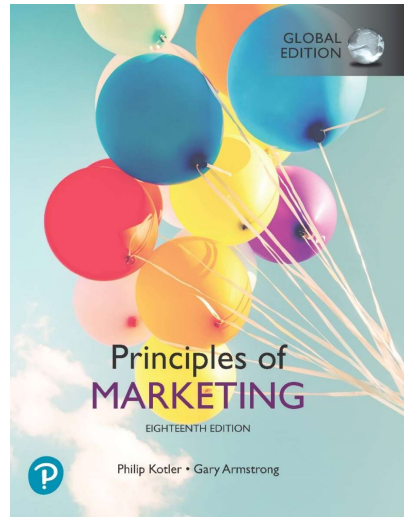


Principles of Marketing

Eighteenth Edition, Global Edition



 Pearson

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Chapter 12

Marketing Channels: Delivering Customer Value

1

NETFLIX: Finding the Future by Abandoning the Past

- Time and again, Netflix has innovated its way to the top in the distribution of video entertainment. But to stay atop its boiling, roiling industry, Netflix must keep the distribution innovation pedal to the metal.

Netflix's innovative distribution strategy: From DVDs by mail to Watch Instantly to streaming on almost any device and creating original content, Netflix has led the howling pack by doing what it does best—revolutionize distribution. What's next?



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Learning Objectives

- 12.1** Explain why companies use marketing channels and discuss the functions these channels perform.
- 12.2** Discuss how channel members interact and how they organize to perform the work of the channel.
- 12.3** Identify the major channel alternatives open to a company.
- 12.4** Explain how companies select, motivate, and evaluate channel members.
- 12.5** Discuss the nature and importance of marketing logistics and integrated supply chain management.

3

Learning Objective 1

Explain why companies use marketing channels and discuss the functions these channels perform.

4

Supply Chains and Value Delivery Networks (1 of 3)

Upstream partners are firms that supply raw materials, components, parts, information, finances, and expertise needed to create a product or service.

Downstream partners include the marketing channels or distribution channels that look toward the customer, including retailers and wholesalers.



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Supply Chains and Value Delivery Networks (2 of 3)

Supply chain “make and sell” view includes the firm’s raw materials, productive inputs, and factory capacity.

Demand chain “sense and respond” view suggests that planning starts with the needs of the target customer.



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Supply Chains and Value Delivery Networks (3 of 3)

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.

Value delivery network: In making and marketing its lines of cars, Toyota manages a huge network of people within the company plus thousands of outside suppliers, dealers, and marketing service firms that work together to deliver the brand's "Let's Go Places" and "Let's Go Beyond" promises.



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The Nature and Importance of Marketing Channels (1 of 7)

Marketing channel (distribution channel) is a set of interdependent organizations that help make a product or service available for use or consumption by the consumer or business user.



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The Nature and Importance of Marketing Channels (2 of 7)

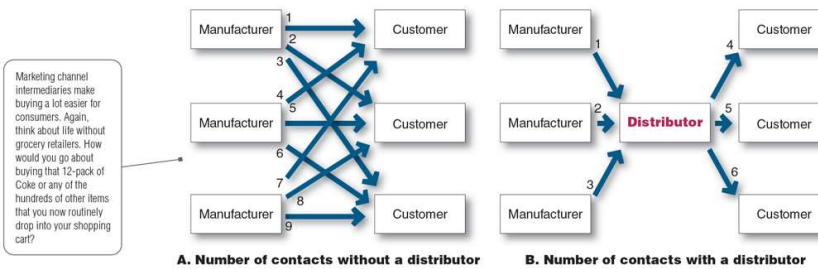
How Channel Members Add Value

- Transform the assortment of products into assortments wanted by consumers.
- Bridge the major time, place, and possession gaps that separate goods and services from users.

9

The Nature and Importance of Marketing Channels (3 of 7)

Figure 12.1 How a Distributor Reduces the Number of Channel Transactions



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The Nature and Importance of Marketing Channels (4 of 7)

How Channel Members Add Value

- Information
- Promotion
- Contact
- Matching
- Negotiation
- Physical distribution
- Financing
- Risk taking



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The Nature and Importance of Marketing Channels (5 of 7)

Number of Channel Levels

Channel level is a layer of intermediaries that performs some work in bringing the product and its ownership closer to the final buyer.

Direct marketing channel is a marketing channel that has no intermediary levels.

Indirect marketing channel is a marketing channel containing one or more intermediary levels.

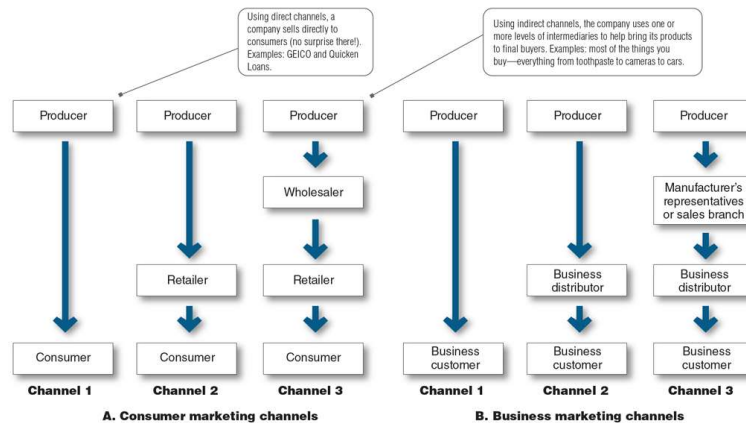


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The Nature and Importance of Marketing Channels (6 of 7)

Figure 12.2 Consumer and Business Marketing Channels



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The Nature and Importance of Marketing Channels (7 of 7)

Number of Channel Levels

Channel members are connected by several types of flows:

- Physical flow of products
- Flow of ownership
- Payment flow
- Information flow
- Promotion flow



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Learning Objective 2

Discuss how channel members interact and how they organize to perform the work of the channel.



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Channel Behavior and Organization (1 of 13)

Channel Behavior

Marketing channels consist of firms that have partnered for their common good with each member playing a specialized role.



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Channel Behavior and Organization (2 of 13)

Channel Behavior

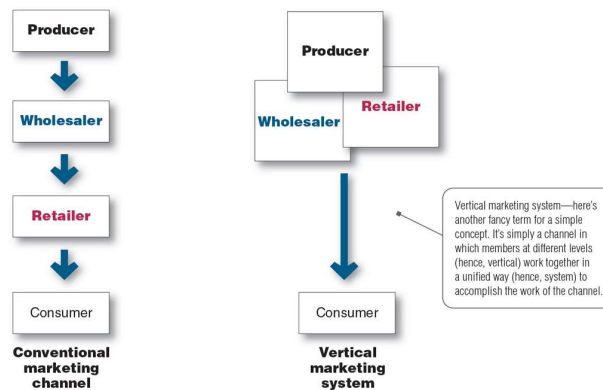
Channel conflict refers to disagreement among channel members over goals, roles, and rewards.

- Horizontal conflict
- Vertical conflict

17

Channel Behavior and Organization (3 of 13)

Figure 12.3 Comparison of Conventional Distribution Channel with Vertical Marketing System



18

Channel Behavior and Organization (4 of 13)

Vertical Marketing Systems

Conventional distribution systems consist of one or more independent producers, wholesalers, and retailers, each separate business seeking to maximize its own profits, perhaps even at the expense of profits for the system as a whole.



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Channel Behavior and Organization (5 of 13)

Vertical Marketing Systems

Vertical marketing systems (VMSs) provide channel leadership and consist of producers, wholesalers, and retailers acting as a unified system.

- Corporate marketing systems
- Contractual marketing systems
- Administered marketing systems



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Channel Behavior and Organization (6 of 13)

Vertical Marketing Systems

Corporate vertical marketing systems combine successive stages of production and distribution under single ownership.



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Channel Behavior and Organization (7 of 13)

Vertical Marketing Systems

Contractual vertical marketing systems consist of independent firms at different levels of production and distribution who join together through contracts.



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Channel Behavior and Organization (8 of 13)

Vertical Marketing Systems

Franchise organization is a contractual vertical marketing system in which a channel member, called a franchisor, links several stages in the production-distribution process.

Franchising systems: Through franchising, Sports Clips—where you can “Get your hair in the game”—has rapidly grown to more than 1,700 locations.



Sport Clips, Inc.



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Channel Behavior and Organization (9 of 13)

Vertical Marketing Systems

An **administered vertical marketing system** is a VMS that coordinates successive stages of production and distribution through the size and power of one of the parties.



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Channel Behavior and Organization (10 of 13)

Horizontal Marketing Systems

Horizontal marketing system is a channel arrangement in which two or more companies at one level join together to follow a new marketing opportunity.

Horizontal marketing systems: Target partners with CVS Health, who operates stores-within-stores to the benefit of all – Target, CVS, and their mutual customers.



CVS Caremark

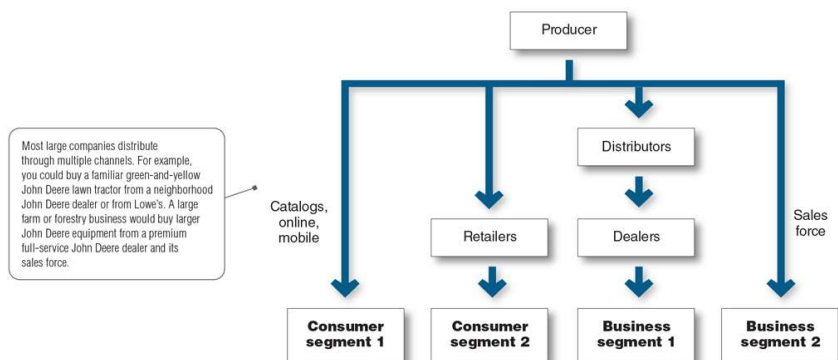


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Channel Behavior and Organization (11 of 13)

Figure 12.4 Multichannel Distribution System



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Channel Behavior and Organization (12 of 13)

Multichannel Distribution Systems

Multichannel distribution systems are systems in which a single firm sets up two or more marketing channels to reach one or more customer segments.



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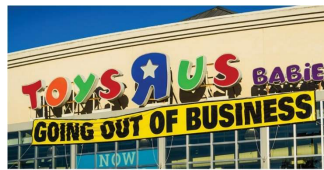
27

Channel Behavior and Organization (13 of 13)

Changing Channel Organization

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

- Disintermediation: Toys“R”Us pioneered the superstore format that once made it the go-to place for buying toys. But after falling victim to shifts in toy market sales to big discounters like Walmart and online merchants like Amazon, the retail giant was forced to close down operations and shutter its stores.



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Learning Objective 3

Identify the major channel alternatives open to a company.



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Channel Design Decisions (1 of 8)

Marketing channel design

Designing effective marketing channels by analyzing customer needs, setting channel objectives, identifying major channel alternatives, and evaluating those alternatives.



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Channel Design Decisions (2 of 8)

- Analyzing consumer needs
- Setting channel objectives
- Identifying channel alternatives
- Evaluating channel alternatives

31

Channel Design Decisions (3 of 8)

Analyzing Consumer Needs

- Find out what target consumers want from the channel
- Identify market segments
- Determine the best channels to use
- Minimize the cost of meeting customer service requirements

32

Channel Design Decisions (4 of 8)

Setting Channel Objectives

- Determine targeted levels of customer service
- Balance consumer needs against costs and customer price preferences

Channel Design Decisions (5 of 8)

Identifying Major Alternatives

Types of intermediaries refers to channel members available to carry out channel work. Most companies face many channel member choices.

Channel Design Decisions (6 of 8)

Identifying Major Alternatives

Number of Marketing Intermediaries

- Intensive distribution
- Exclusive distribution
- Selective distribution



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Channel Design Decisions (7 of 8)

Identifying Major Alternatives

Responsibilities of Channel Members

A producer and the intermediaries need to agree on

- Price policies
- Conditions of sale
- Territory rights
- Specific services



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Channel Design Decisions (8 of 8)

Evaluating Major Alternatives

- Economic criteria
- Control issues
- Adaptability criteria

37

Learning Objective 4

Explain how companies select, motivate, and evaluate channel members.

38

Channel Management Decision

- Selecting channel members
- Managing channel members
- Motivating channel members
- Evaluating channel members

Public Policy and Distribution Decisions

Exclusive distribution is when the producer gives only a limited number of dealers the exclusive right to distribute its products in their territories.

Exclusive dealing is when the seller requires that the exclusive distribution sellers not handle competitor's products.

Exclusive territorial agreements are where producer or seller limit territory.

Tying agreements are agreements where the dealer must take most or all of the line.

Learning Objective 5

Discuss the nature and importance of marketing logistics and integrated supply chain management.



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Marketing Logistics and Supply Chain Management (1 of 5)

Nature and Importance of Marketing Logistics

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.

The importance of logistics: At any given time, GM has hundreds of millions of tons of finished vehicles and parts in transit, running up an annual logistics bill of about \$8 billion. Even small savings can be substantial.



A.J. Mast

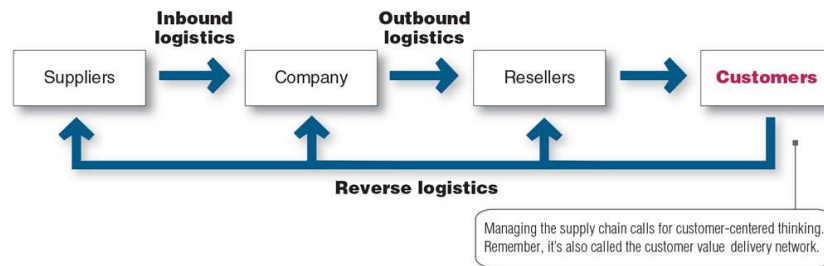


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Marketing Logistics and Supply Chain Management (2 of 5)

Figure 12.5 Supply Chain Management



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Marketing Logistics and Supply Chain Management (3 of 5)

Nature and Importance of Marketing Logistics

Supply chain management involves managing upstream and downstream value-added flows of materials, final goods, and related information among suppliers, the company, resellers, and final consumers.

Goal of marketing logistics should be to provide a targeted level of customer service at the least cost.



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Marketing Logistics and Supply Chain Management (4 of 5)

Major Logistics Functions

- Warehousing
- Inventory management
- Transportation
- Logistics information management



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Marketing Logistics and Supply Chain Management (5 of 5)

Integrated Logistics Management

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

Integrated logistics management: Oracle's supply chain management software solutions help companies to “gain sustainable advantage and drive innovation by transforming their traditional supply chains into integrated value chains.”



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46