Chapter Objectives

1. Describe the types of marketing channels and the roles they play in marketing strategy.
2. Outline the major channel strategy decisions.
3. Describe the concepts of channel management, conflict, and cooperation.
4. Identify and describe the different vertical marketing systems.
5. Explain the roles of logistics and supply-chain management in an overall distribution strategy.
6. Identify the major components of a physical distribution system.
7. Compare the major modes of transportation.
8. Discuss the role of transportation intermediaries, combined transportation modes, and warehousing in improving physical distribution.
• **Distribution Movement** of goods and services from producers to ____________.

• **Marketing (distribution) channel** System of ____________ institutions that enhances the physical flow of goods and services, along with ownership title, from producer to consumer or business user.

• **Logistics** Process of coordinating the flow of information, goods, and services among members of the distribution channel.

• **Supply-chain management** Control of the ____________ of purchasing, processing, and delivery through which raw materials are transformed into products and made available to final consumers.

• **Physical distribution** Broad range of activities aimed at efficient ____________ of finished goods from the end of the production line to the consumer.
• Marketing channels are key because they are the means of making goods and services available to ultimate users.

• Four functions of marketing channels:
  
  • Channels facilitate the exchange process by reducing the number of marketplace contacts necessary to make a sale.
  
  • Distributors adjust for discrepancies in the market’s assortment of goods and services via sorting, channeling products to meet the buyer’s and producer’s needs.
  
  • Channel members tend to standardize payment terms, delivery schedules, prices, purchase lots, and other conditions.
  
  • Channels facilitate searches by both buyers and sellers and bring them together to complete the exchange process.
TYPES OF MARKETING CHANNELS

• Most channel options involve at least one marketing intermediary, an organization that operates between producers and consumers or business users.

  • A retailer owned and operated by someone other than the manufacturer of the products it sells.
  
  • A wholesaler who takes title to the goods it handles and then distributes these goods to retailers, other distributors, or sometimes end consumers.

• Short channels have few intermediaries.

• Service firms market primarily through short channels because they sell intangible products and need to maintain personal relationships within their channels.

  • Example: Independent ticket agencies.
DIRECT SELLING

• Direct channel—carries goods directly from a producer to the business purchaser or ultimate user.

• Direct selling—a marketing strategy in which a producer establishes direct sales contact with its product’s final users.
  
  • Important option for goods that require extensive demonstrations in persuading customers to buy.
  
  • Example: Party plan, a gathering at a host customer’s home to demonstrate products and take orders.

• Internet and direct mail are also potentially important tools for direct selling.
CHANNELS USING MARKETING INTERMEDIARIES

• For some products, using intermediaries may be more efficient, less expensive, and less time-consuming.

Producer to Wholesaler to Retailer to Customer

• The traditional channel for consumer goods.
• Gives small producers access to hundreds of retailers.
• Gives small retailers access to wholesaler’s specialized distribution skills.

Producer to Wholesaler to Business User

• Industrial distributor—intermediaries in the business market that take title to goods.
Producer to Agent to Wholesaler to Retailer to Customer

• Common in markets served by small companies.
• Agent may or may not take possession of goods but does not take title.

Producer to Agent to Wholesaler to Business User

• Agent or broker, often called a manufacturer’s representative, markets a producer’s offerings to wholesalers.

Producer to Agent to Business User

• Independently owned wholesaler takes title to the goods.
• Common in transactions with large unit sales in which transportation is small percentage of total cost.
DUAL DISTRIBUTION

• Movement of products through more than one channel to reach the firm’s target market.

• Used to maximize the firm’s coverage in the marketplace or to increase the cost-effectiveness of the firm’s marketing effort.

  • Example: Nordstrom sells through stores, catalog, and the Internet.

REVERSE CHANNELS

• Channels designed to return goods to their producers.

• Growing importance because of rising prices for raw materials, increasing availability of recycling facilities, and passage of additional antipollution and conservation laws.

  • Example: Every element in a spent automotive battery can be reclaimed, recycled, and reused in new batteries.

• Also used for recalls and repairs.
CHANNEL STRATEGY DECISIONS

SELECTION OF A MARKETING CHANNEL

• Multiple ________ affect selection of a marketing channel.

Market Factors

• Businesses often prefer to buy from ______________; consumers from retailers.

• Other factors include market’s needs, its geographic location, and its average order size.

Product Factors

• Perishable goods and _________ fashions move through short channels.

• Relatively standardized, nonperishable items and items with low unit costs pass through comparatively ________ channels.
Organizational and Competitive Factors

- Companies with strong financial, management, and marketing resources feel less need for help from intermediaries.

- Firm with a broad product line can usually market its products directly to retailers or business users because its own sales force can offer a variety of products.

- Manufacturer’s desire for control over marketing also influences channel selection.
<table>
<thead>
<tr>
<th><strong>Market factors</strong></th>
<th><strong>Characteristics of Short Channels</strong></th>
<th><strong>Characteristics of Long Channels</strong></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Business users</td>
<td>Consumers</td>
</tr>
<tr>
<td></td>
<td>Geographically concentrated</td>
<td>Geographically dispersed</td>
</tr>
<tr>
<td></td>
<td>Extensive technical knowledge and regular servicing required</td>
<td>Little technical knowledge and regular servicing not required</td>
</tr>
<tr>
<td></td>
<td>Large orders</td>
<td>Small orders</td>
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<thead>
<tr>
<th><strong>Product factors</strong></th>
<th><strong>Characteristics of Short Channels</strong></th>
<th><strong>Characteristics of Long Channels</strong></th>
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<tbody>
<tr>
<td></td>
<td>Perishable</td>
<td>Durable</td>
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<tr>
<td></td>
<td>Complex</td>
<td>Standardized</td>
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<tr>
<td></td>
<td>Expensive</td>
<td>Inexpensive</td>
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<table>
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<tr>
<th><strong>Organizational factors</strong></th>
<th><strong>Characteristics of Short Channels</strong></th>
<th><strong>Characteristics of Long Channels</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturer has adequate resources to perform channel functions</td>
<td>Manufacturer lacks adequate resources to perform channel functions</td>
<td></td>
</tr>
<tr>
<td>Broad product line</td>
<td>Limited product line</td>
<td></td>
</tr>
<tr>
<td>Channel control important</td>
<td>Channel control not important</td>
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</table>

<table>
<thead>
<tr>
<th><strong>Competitive factors</strong></th>
<th><strong>Characteristics of Short Channels</strong></th>
<th><strong>Characteristics of Long Channels</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturer feels satisfied with marketing intermediaries' performance in promoting products</td>
<td>Manufacturer feels dissatisfied with marketing intermediaries' performance in promoting products</td>
<td></td>
</tr>
</tbody>
</table>
DETERMINING DISTRIBUTION INTENSITY

• Number of intermediaries through which a manufacturer distributes its goods in a particular market.

**Intensive Distribution**

• **Intensive distribution** Distribution of a product through all available channels.

  • Common for items with wide appeal across broad consumer categories.

**Selective Distribution**

• **Selective distribution** Distribution of a product through a limited number of channels.

  • Can reduce total marketing costs and give manufacturers more control over product advertising, pricing, and display.
Exclusi\v{\i}e D\v{s}tri\v{b}ution

• **\textit{Exclusive distribution}** Distribution of a product through a single wholesaler or retailer in a specific geographic region.

Legal Problems of Exclusive Distribution

• Exclusive dealing agreement—prohibits a marketing intermediary from handling competing products.

• Closed sales territories—restrict their distributors to certain geographic regions.

• Tying agreements—allow channel members to become exclusive dealers only if they also carry products other than those that they want to sell.

• Legality depends on whether the restrictions illegally reduce competition or create a monopoly.
WHO SHOULD PERFORM CHANNEL FUNCTIONS?

• Intermediary must provide better service at lower costs than manufacturers or retailers can provide for themselves.

• Consolidation of channel functions can represent a strategic opportunity for a company.
  
  • Example: Auto manufacturers operate their own credit units that offer financing.
• Marketers must establish and maintain relationships with intermediaries in their distribution channels.

• **Channel captain** Dominant and controlling member of a marketing channel.
  
  • Example: Kroger is a channel captain in the grocery industry.

• Several retailers may combine to form a value network to dominate a channel, or one may build supercenters (Wal-Mart, for example).

## CHANNEL CONFLICT

### Horizontal Conflict

• Results from disagreements among channel members at the same level, such as two competing discount stores.
Vertical Conflict

• Occurs among members at different levels of the channel.
  
  • Example: When Tupperware struck a deal to sell its products at Target stores, it lost three-quarters of its in-home sales force.

The Gray Market

• Goods produced for overseas markets that re-enter the U.S. market and compete against domestic versions.
  
  • Licensing agreements usually prohibit foreign manufacturers from selling in the U.S. but do not inhibit their distributors.

ACHIEVING CHANNEL COOPERATION

• Best achieved when all members of channel see themselves as equal components.

• Channel captain should provide this leadership.
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 channel.

• Rely on forward or backward integration.
  
  • Forward integration—firm attempts to control downstream distribution.
  
  • Backward integration—manufacturer attempts to gain greater control over inputs to production process.

CORPORATE AND ADMINISTERED SYSTEMS

• Corporate marketing system—single owner runs organizations at each stage of the marketing channel.

• Administered marketing system—dominant channel member exercises power to achieve channel coordination.
CONTRACTUAL SYSTEMS

• Contractual marketing system—coordinates distribution through formal agreements among channel members.

Wholesaler-Sponsored Voluntary Chain

• Wholesaler has formal agreement with retailers to use a common name and to purchase the wholesaler’s goods
  • Example: IGA Food Stores.

Retail Cooperative

• Retailers establish a shared wholesaling operation.
  • Example: Ace Hardware.

Franchise

• Wholesaler or dealer (franchisee) agrees to meet the operating requirements of a manufacturer or other franchisor.
<table>
<thead>
<tr>
<th>RANK</th>
<th>COMPANY AND PRODUCT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Subway: sandwiches and salads</td>
</tr>
<tr>
<td>2</td>
<td>Pizza Hut: pizza</td>
</tr>
<tr>
<td>3</td>
<td>Quiznos Sub: sandwiches and salads</td>
</tr>
<tr>
<td>4</td>
<td>Jan-Pro Franchising International: commercial cleaning</td>
</tr>
<tr>
<td>5</td>
<td>Curves: women's fitness centers</td>
</tr>
<tr>
<td>6</td>
<td>Jani-King: commercial cleaning</td>
</tr>
<tr>
<td>7</td>
<td>Jackson Hewitt Tax Service: tax preparation service</td>
</tr>
<tr>
<td>8</td>
<td>The UPS Store: postal, business, and communication services</td>
</tr>
<tr>
<td>9</td>
<td>Coverall Cleaning Concepts: commercial cleaning</td>
</tr>
<tr>
<td>10</td>
<td>CleanNet USA: commercial office cleaning</td>
</tr>
<tr>
<td>11</td>
<td>Cold Stone Creamery: ice cream, frozen yogurt</td>
</tr>
<tr>
<td>12</td>
<td>RE/MAX International: real estate agents</td>
</tr>
<tr>
<td>13</td>
<td>Liberty Tax Service: income tax preparation</td>
</tr>
<tr>
<td>14</td>
<td>Bonus Building Care: commercial cleaning</td>
</tr>
<tr>
<td>15</td>
<td>Century 21 Real Estate: real estate agents</td>
</tr>
<tr>
<td>16</td>
<td>Dunkin’ Donuts: donuts and coffee</td>
</tr>
<tr>
<td>17</td>
<td>Anago Franchising: commercial cleaning</td>
</tr>
<tr>
<td>18</td>
<td>Sylvan Learning Centers: tutoring services</td>
</tr>
<tr>
<td>19</td>
<td>Coldwell Banker Real Estate: real estate agents</td>
</tr>
<tr>
<td>20</td>
<td>Great Clips: family hair salons</td>
</tr>
</tbody>
</table>

Logistics and Supply Chain Management

- Careful coordination of network, shipping processes, and inventory are key to companies’ success.

- Supply chain C sequence of suppliers and activities that contribute to the creation and delivery of merchandise.
  - Begins with raw-material inputs for production.
  - Ends with movement of final product to customers.
- Takes place in two directions: and .
RADIO FREQUENCY IDENTIFICATION (RFID)

- **Radio frequency identification (RFID)** Technology that uses a tiny chip with identification information that can be read by a scanner using radio waves from a distance.

- Can be used to grant access to restricted areas or to speed delivery processing.

- Tyson Foods uses to track location of product throughout the supply chain.

- Privacy advocates have concerns about data obtained from RFID tags.

ENTERPRISE RESOURCE PLANNING

- Integrated software system that consolidates data from among the firm’s units.

- Two-thirds of ERP system users are manufacturers concerned with production issues such as sequencing and scheduling.
LOGISTICAL COST CONTROL

• Distribution function account for half of a typical firm’s marketing costs.

• Eliminating, reducing, or redesigning supply chain activities can save millions, even billions, of dollars.

Third-Party Logistics

• Third-party logistics (3PL) firms—specialize in handling logistical activity.

• Industry is large, $33 billion worldwide.

  • Examples: Penske Logistics, UPS, and Schenker.
PHYSICAL DISTRIBUTION

• Physical distribution system contains these elements:
  • __________ service.
  • Transportation.
  • Inventory __________.
  • Protective packaging and materials handling.
  • Order __________
  • Warehousing.

THE PROBLEM OF SUBOPTIMIZATION

• Results when the managers of individual physical distribution functions attempt to minimize _____, but the impact of one task on the others leads to less than optimal results.

• Effective management of physical distribution requires cost trade-offs.
CUSTOMER-SERVICE STANDARDS

• State goals and define acceptable performance for the quality of service that a firm expects to deliver to its customers.
  • Example: Pizza shop that commits to delivering pizza within 30 minutes.

• After these standards are defined, designers assemble other physical distribution components to meet these standards.

TRANSPORTATION

• 2.6 million tractor-trailers transport goods nationwide.

• 82 percent of U.S. commodities rely entirely on trucking for delivery.

• Transportation and delivery add approximately 10 percent to product costs.

• Key to cost control is often careful management of relationships with shipping firms.
Classes of Carriers

• Common carriers—provide transportation services as for-hire carriers to the general public.

• Contract carriers—for-hire transporters that do not offer their services to the general public.

• Private carriers—provide transportation services solely for internally generated freight.

Major Transportation Modes

Railroads

• Most efficient way for moving bulky commodities over long distances; enjoying a resurgence.

• Intermodal operations Combination of transport modes such as rail and highway carriers (piggyback), air and highway carriers (birdyback), and water and air carriers (fishyback) to improve customer service and achieve cost advantages.
Motor Carriers

• 500,000 trucking companies employing 9 million people operate in the United States.

• Haul an estimated 64 percent of the total freight tonnage transported in the United States.

• Relatively fast and consistent service.

Water Carriers

• Include inland or barge lines and ocean-going, deepwater ships.

• Barge lines carry bulky, low-unit-value commodities such as grain, lumber, and steel.

• Oceangoing ships carry $522 billion of containerized freight annually.
Pipelines

• U.S. has more than 140,000 miles of pipeline.

• Efficiently transports natural gas and oil products such as jet fuel, gasoline, and kerosene.

• Low maintenance and dependable.

• Few locations, can accommodate only a small number of products, and relatively slow.

Air Freight

• Declining as cost-conscious businesses rely more on less expensive ground delivery.
### Table 13.3 Comparison of Transport Modes

<table>
<thead>
<tr>
<th>MODE</th>
<th>SPEED</th>
<th>Dependability in Meeting Schedules</th>
<th>Frequency of Shipments</th>
<th>Availability in Different Locations</th>
<th>Flexibility in Handling</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rail</td>
<td>Average</td>
<td>Average</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
<td>Average</td>
</tr>
<tr>
<td>Water</td>
<td>Very slow</td>
<td>Average</td>
<td>Very low</td>
<td>Limited</td>
<td>Very high</td>
<td>Very low</td>
</tr>
<tr>
<td>Truck</td>
<td>Fast</td>
<td>High</td>
<td>High</td>
<td>Very extensive</td>
<td>Average</td>
<td>High</td>
</tr>
<tr>
<td>Pipeline</td>
<td>Slow</td>
<td>High</td>
<td>High</td>
<td>Very limited</td>
<td>Very low</td>
<td>Low</td>
</tr>
<tr>
<td>Air</td>
<td>Very fast</td>
<td>High</td>
<td>Average</td>
<td>Average</td>
<td>Low</td>
<td>Very high</td>
</tr>
</tbody>
</table>
Freight Forwarders and Supplemental Carriers

• Transportation intermediaries that consolidate shipments to gain lower rates and faster delivery service for their customers.

Intermodal Coordination

• Companies often consolidate their services to give shippers the service and advantages of each mode.

• Gives shippers lower rates and faster service than either mode could match individually.

• Multimodal companies offer combined services within single operations.

Warehousing

• Storage warehouse—holds goods for moderate to long periods in an attempt to balance supply and demand for producers and purchasers.

• Distribution warehouse—assembles and redistributes goods, keeping them moving as much as possible.
Automated Warehouse Technology

• Automated systems can cut distribution costs and improve customer service.

Warehouse Locations

• Main influences on choice: (1) warehouse and materials handling costs and (2) delivery costs from warehouses to customers.

• Location also affects customer service.

INVENTORY CONTROL SYSTEMS

• Companies must balance maintaining enough inventory to meet customer demand with incurring unneeded costs for carrying excess inventory.

• Firms use just-in-time delivery systems, RFID technology or vendor-managed inventory to help manage costs.
ORDER PROCESSING

• Directly affects firm’s ability to meet customer service standards.

• Includes four major activities:
  • Conducting a credit check.
  • Keeping a record of the sale.
  • Making appropriate accounting entries.
  • Locating orders, shipping them, and adjusting inventory records.

PROTECTIVE PACKAGING AND MATERIALS HANDLING

• Materials handling system—activities for moving products within plants, warehouses, and transportation terminals.
  • Unitizing—combining as many packages as possible into each load that moves within or outside a facility.
  • Containerizing—combining several unitized loads.