Distribution Channel

Channel:

Marketing channels are the sets of interdependent organizations involved in the process of making a product or service available for use or consumption.

Channel Functions:

1. It performs the work of moving goods from producers to consumers.
2. It overcomes the time, place and possession gaps between producers and consumers.
3. It gathers information about customers, competitors and other factors in the market.
4. It places orders with manufacturers.
5. It acquires funds to finance inventories.
6. It assumes risks associated with channel working.
7. It provides storage for inventories.
8. It reaches agreement with customers on prices and other terms.
9. It provides credit to customers on purchasing.

Channel Levels:

The channel levels can be bifurcated into:

1. Consumer marketing channels, and
2. Industrial marketing channels.

1. **Consumer Marketing Channels:**
    a. ***Zero-level channel:***
        i. Manufacturer
        ii. Consumer
    b. ***One-level channel:***
        i. Manufacturer
        ii. Retailer
        iii. Consumer
    c. ***Two-level channel:***
        i. Manufacturer
        ii. Wholesaler
        iii. Retailer
        iv. Consumer
    d. ***Three-level channel:***
        i. Manufacturer
        ii. Wholesaler
        iii. Jobber
        iv. Retailer
        v. Consumer
2. **Industrial Marketing Channels:**
    a. ***Zero-level channel:***
        i. Manufacturer
        ii. Industrial customers

b. *One-level channel:*

  i. Manufacturer
  ii. Industrial distributors
  iii. Industrial customers

c. *Two-level & three-level channels:*

  i. Manufacturer
  ii. Manufacturer's representative/sales branch
  iii. Industrial distributors
  iv. Industrial customers.

Channel Designing:

Following are the steps taken in channel designing:

1. Analyzing customer's needs,
2. Establishing objectives and constraints,
3. Identifying major channel alternatives, and
4. Evaluating the major channel alternatives.

1. Analyzing customer's needs: In designing marketing channel, the marketer must understand the "service output levels" desired by target customers. Marketing channels produce service outputs, which are as follows:

  a. Lot size,
  b. Waiting time,
  c. Spatial convenience,
  d. Product variety,
  e. Service backup.

2. Establishing objectives and constraints: Channel objectives must be stated in terms of service output levels as targeted in the first phase of channel designing. Channel objectives vary with product features. For examples, perishable products require direct marketing, heavy and bulky products require channels to be near to the market, etc.

3. Identifying major channel alternatives: The third step is to identify the major channel alternatives. The channel alternative is described by three elements, i.e.:

  a. Types of Intermediaries: Following are the types of intermediaries:

    i. Company Sales Force: refers to its own sales force in different regions and territories.
    ii. Manufacturers' Agency: refers to hired sales agents in different regions and territories.
    iii. Industrial Distribution: refers to the distribution in different regions, which will buy and carry the inventories.

  b. Number of Intermediaries: There are three strategies available:

    i. Exclusive Distribution: means severely limiting the number of intermediaries. It often involves in making an agreement in which the seller agrees to not carry other competing brands. Such type of distribution requires good relationship between seller and reseller. It is generally used in automobiles, television, refrigerators, air conditioners and some other consumer.

ii. *Selective Distribution:* involves more than few but less than all of the intermediaries available. The company does not have to dissipate its efforts over too many outlets. It enables the producer to gain adequate market coverage with more control and less cost than intensive distribution. Nike, the world's largest athletic shoe maker, is the example of selective distribution.

iii. *Intensive Distribution:* refers to the distribution of goods and services to as many intermediaries as possible. This strategy is generally used for daily consuming items, for e.g., soap, shampoo, shaving cream, shaving razors, cigarettes, condoms, cooking oil, tea and coffee, milk, vegetables, etc.

c. ***Terms and Responsibilities of Channel Members:*** The terms and responsibilities of channel members, can be classified by the producer in the following terms:

i. *Price Policy,* i.e., price lists, discounts and allowances schedules.
ii. *Condition of Sale,* i.e., payment terms and producer's guarantees.
iii. *Distributors' territorial rights.*
iv. *Mutual services and responsibilities*.

4. **Evaluating major channel alternatives:** Each channel alternative is evaluated in terms of economy, control and adaptive criteria:

a. ***Economic Criteria:*** For each alternative, the marketer needs to calculate sales (estimated) and costs (estimated) separately and must duly compare them. The marketer conducts Cost and Benefit Analysis.

b. ***Control Criteria:*** The marketer must also evaluate his control effectiveness over the working sales agencies. Independent sales agencies have their own profit objectives and thus may concentrate on the products which yield them high profits.

c. ***Adaptive Criteria:*** The marketer must also ensure that the channel members are adaptive to the ever-changing market environment. It involves in evaluation of adaptability of channel members.

Channel Management:

Following are the steps in deciding about channel management:

1. Selecting channel members,
2. Training channel members,
3. Motivating channel members,
4. Evaluating channel members, and
5. Modifying channel arrangements.

1. **Selecting channel members:** The first step in channel management is selecting appropriate channel members for distribution of goods and services.
2. **Training channel members:** Company needs to plan and implement careful training programs for their distributors and dealers, because intermediaries will be viewed as the company itself by end users. Microsoft requires third party service engineers, and for this it introduces a certification program with training. After

training, the trainee will become a Microsoft Certified Professional, and can use this designation to promote business.

3. **Motivating channel members:** Motivating the channel members is an essential part of channel management. It refers to providing adequate incentives to the channel members for distributing their products or offerings to the desired locations. Therefore, the company needs to determine intermediaries' needs and to provide them the superior value, which they deserve. In motivating and managing channel members, the producer exercises several powers to elicit cooperating such powers are classified as below:
   a. ***Coercive Power:*** used by the producer to threaten the intermediary to withdraw a resource or to terminate the relationship, if the intermediary fails to cooperate.
   b. ***Reward Power:*** exercised by the producer to reward the intermediary if it is succeeded in achieving a certain task.
   c. ***Legitimate Power:*** is a legal power used by the manufacturer to behave or to act in the manner as provided by the contract. The intermediary has the obligation on its side.
   d. ***Expert Power:*** can be used only if the manufacturer has specialized knowledge in certain areas like technology. Such a power is a value for the intermediaries. In the global market, expert power has been extensively used by Intel, Microsoft, Google, Toyota, Siemens, Sony, Philips, Nokia, Apple Inc., etc.
   e. ***Referent Power:*** are generally exercised by well-established and highly respected firms over their intermediaries. Such companies are Pepsi-Cola, Coca-Cola, Gillette, Citibank, Lloyd (insurance), McDonalds, etc.
4. **Evaluating channel members:** Producers must periodically evaluate intermediaries' performance against such standards as sales-quota attainment, average inventory level, customer delivery time, treatment of damaged or defective goods, etc.
5. **Modifying channel arrangements:** A producer is also needed to periodically review, evaluate and finally modify the channel arrangements. Modification becomes necessary in the following cases:
   a. Distribution channels are not working well as planned,
   b. Where the market expands,
   c. Where the new competitors arrived in the market,
   d. Where the product has moved into the later stage of product development life cycle, and
   e. Where the distribution channels need up to date technology and latest innovations.

Channel Dynamics:

The channel dynamics can be divided into three:

1. Vertical marketing systems,
2. Horizontal marketing systems, and
3. Multi channel marketing systems.

1. **Vertical Marketing Systems:** The conventional marketing channel comprises of the producer, the wholesaler and retailer. All the members have their own profit motives and work independently. No channel member has a control over the other members. Vertical Marketing System (VMS), by contrast, comprises the producer, wholesalers and retailers acting as a unified system. One channel member must be a channel captain to lead the whole system or to franchise the other channel members. The channel captain may be a producer, a wholesaler or a retailer. There are three types of VMS:
   a. ***Corporate Vertical Marketing System:*** combines successive stages of production and distribution under single ownership. It is favoured by those companies that desire a high level of control over their channels.
   b. ***Administered Vertical Marketing System:*** combines successive stages of production and distribution through the size and power of one of the members. Manufacturers of a dominant brand are able to secure strong cooperation and support from resellers. For example: Gillette, P&G, Kodak, Uni Lever, etc.
   c. ***Contractual Vertical Marketing System:*** consists of independent firms at different levels of production and distribution integrating their efforts on a contractual basis. Contractual VMS are of three types:
      i. *Wholesaler-Sponsored Voluntary Chains,*
      ii. *Retailer Cooperatives, and*
      iii. *Franchise Organisations:*
         - Manufacturer-Sponsored Retailer Franchise, e.g., Honda, Suzuki, Toyota, etc.
         - Manufacturer-Sponsored Wholesaler Franchise, e.g., Coca-Cola, Pepsi-Cola, etc.
         - Service-Firm-Sponsored Retailer Franchise, e.g., McDonalds, KFC, Pizza Hut, etc.
2. **Horizontal Marketing System:** In Horizontal Marketing System (HMS), two or more unrelated companies are combined to exploit new marketing opportunities. Many supermarket chains have arrangements with local banks to offer in-store banking. Companies might work with each other on a temporary or permanent basis or create a joint venture. It is also known as “Symbolic Marketing”.
3. **Multi Channel Marketing System:** Multi Channel Marketing System refers to the system when a single firm uses more than one distribution channel to reach one or more customer segments. Through this, the firm has three major benefits:
   a. ***Increased Market Coverage,*** i.e., to reach unexploited customer segments.
   b. ***Lower Channel Cost,*** i.e., through diversifying the selling cost among more than one channel and through direct selling to customers.
   c. More Customized Selling.