LESSON 9: DISTRIBUTION CHANNEL STRATEGY

9.1: SUPPLY CHAIN AND VALUE DELIVERY NETWORK

Supply Chain: Place or distribution decision is an activity that is a part of the higher supply chain management. Supply chain refers to the entire spectrum of activities involved- from the supply of raw materials and resources for production, to the production of the products, and to the distribution of products to end users. In an industry, the whole process of the supply resources for the production of the products is known as the upstream activities of the supply chain management. On the other hand, the process that involves the distribution of finished goods to the manufacturers' resellers and the delivery of products to the end users is known as the downstream activities.

Value delivery network: A larger perspective of supply chain management is the value delivery network. Besides addressing the physical supply, value delivery network includes the partnership of the various parties involved in ensuring the supply chain activities are managed effectively & efficiently.

9.2: THE NATURE OF MARKETING CHANNELS

A **marketing channel** is a set of downstream processes of a supply chain that focuses on the flow of ownership of products from the manufacturer to the end users. Manufacturers use channels of distribution in order to deliver finished goods or services to customers.

Figure 9.1: Intermediaries in the Marketing Channel

Based on Figure 9.1, please refer to Table 9.1.

Type of Intermediary	Function	Product Ownership	Income Generation
Wholesalers	Distribute products to other intermediaries	Buy, take title and physical possession of products	Earn profit
Retailers	Distribute products to end users	Buy, take title and physical possession of products	Earn profit
Brokers	Bring buyers and sellers together for a transaction	Do not take title of products	Earn commission
Agents	Represent either buyers or sellers on a permanent basis	Do not take title of products	Earn commission

Table 9.1: Intermediaries – their functions and income generation

<u>The role of Intermediaries in a Marketing Channel</u>

Figure 9.2: The role of Intermediaries

1. **Overcoming discrepancy:**
    a. Quantity discrepancy – refers to the differences between the economical amount of production by manufactures and the amount of end users want to buy.
    b. Assortment discrepancy – means a lack of items needed to receive full satisfaction from a product.
    c. Temporal discrepancy – is created when a product is produced, but the consumers are not ready to purchase it at the time of production.
    d. Spatial discrepancy – exists from the difference between the location of the producer and the location of widely scattered markets.
2. **Providing specialization:**
    a. Information – intermediaries in their day-to-day dealings gather and distribute details about the market and the environment.
    b. Promotion – Intermediaries communicate product benefits to customers through marketing communications materials
    c. Negotiation – Intermediaries discuss on price and other terms in distribution channel transaction.
    d. Physical distribution – intermediaries move and store goods physically.
    e. Financing – intermediaries fund the transactions in the distribution channel by giving credits or allowing credit card purchase.

3. **Contact efficacy** – marketing channels reduce the number of transactions needed to pass products from manufacturers to consumers. Retailers assemble a selection of merchandise so that a buying trip (one contact) can result in many different items. Channel members also allow producers and buyers to reduce the number of transactions each must make.

   Consider this situation: If five consumers wish to buy products from three different manufacturers, there will be a total of fifteen transactions. But, with intermediaries, the number of transactions will be five. What is there is no retailers? How many contacts with manufacturers would you have to make in order to buy your monthly sustenance? You would be probably exhausted by the time you purchase a box of toothpaste from Colgate – Palmolive, a bottle of Nescafe from Nestle, and a bottle of cooking oil from Lam Soon.

9.3: MARKETING CHANNEL STRUCTURES

Marketing Channel Structures

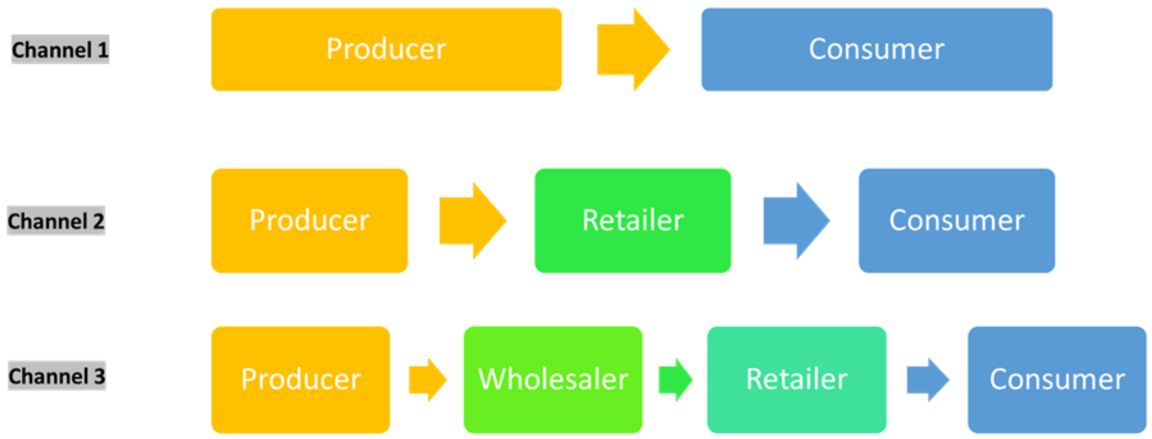

Figure 9.3: Marketing Channels for the Consumer Market

Based on Figure 9.3; Channel 1 is the direct channel while both Channel 2 and 3 are indirect channels. Channel 2 is known as retailer channel while Channel 3 is known as a wholesaler channel. The number of intermediaries in the channel determines the channel length.

Direct Channel – The simplest consumer product channel involves the direct channel to sell directly to consumers. Producers do not use intermediaries to deliver the products to the consumers.

Indirect Channel – Include one or more intermediaries in the route. Retailer channels: includes retailers that stand between the producers and the customers. Wholesaler channel: has both wholesalers and retailers in the channel. The goods move from the produces to the wholesalers to the retailers, and finally to the consumers.

A short channel vs Long channel

1. A **short channel** has fewer levels of intermediaries. It is more suitable for:
   - Service which require personal interaction between providers and users
   - Business markets due to its large volume purchases, and business are concentrated geographically
   - Perishables
   - Products that require high technical knowledge to operate
   - Products that are bulky
   - Manufacturers who want higher control on value delivery

2. A **long channel** has more levels of intermediaries between manufacturer & consumers. The manufacturer has lesser control on value delivery to end users, but in most cases, the intermediaries are established & trusted.
   - Convenience products that require intensive distribution
   - Channel networks which have well-experienced and established intermediaries in the market

- High distribution costs that can be shared by more intermediaries
- Value delivery that requires less control

9.4: MARKETING CHANNEL DESIGN DECISION

In order to design the distribution channel structure for products, marketers need to determine the customer distribution requirements, company's service output level, number of intermediaries in the network and types of intermediaries.

<u>Number of Intermediaries</u>

Figure 9.4: Spectrum of distribution intensity design decision

Exclusive distribution – involves a limited number of intermediaries handling the firm's products and services. It is used when the firm wants to have more control in handling the product such as on the service level and the service output.

Intensive distribution – is to place the goods or services in as many outlets as possible. It is often being used when consumers demand a great deal of convenience.

Selective distribution – involves the use of more than a few but less than all the intermediaries who are willing to carry a particular product. Selective distribution enables the producer to gain adequate market coverage with more control and less cost than intensive distribution.

<u>Types of Intermediaries</u>

Wholesalers: Unlike agents & brokers, wholesalers take ownership of the products. Full service merchant wholesalers perform a wide variety of tasks for the suppliers and customers. Limited service merchant wholesalers perform the buying & storage function but normally require their customers to do their own transporting and financing tasks. The functions of the wholesalers are:

- Buying & selling
- Assortment building
- Bulk-breaking
- Warehousing
- Transportation
- Financing
- Market information

Retailers – Retailing is defined as all activities performed related with selling of goods by a firm to the final users of products. Types of Store Retailers – There are many types of store retailers. They differ in the extent of:

- The product lines they carry
- The type of consumer search effort they practice
- The level of service offered

Product Assortment	Relative Price Emphasis	Level of Service Provided	Ownership
• Departmental stores • Department centres • Hypermarkets • Supermarkets • Mini markets and provision shops • Specialty stores • Category killers • Specialty centres • Convenience stores • Sundry/toiletry shops • Pharmacies • Chinese medicinal halls	• Discount stores • Off-price retailers	• Self-service • Limited service • Full service	• Corporate chain • Voluntary chain & retailer cooperative • Consumer cooperative • Franchise organization • Merchandise conglomerate

Table 9.2: Categories of Retailers

9.5: MARKETING LOGISTICS

Marketing Logistics, which is also known as physical distribution, is considered after decisions on the marketing channel have been made. Logistics involves getting the right amount of the right product to the right place and at the right time.

Figure 9.5: Main Logistics Function

POINTS TO PONDER

1. Most producers do not sell their goods directly to final users. Between producers and final users stands one or more marketing channels, a host of marketing intermediaries performing a variety of functions.
2. Marketing channel decisions are among the most critical decisions facing management. The company's chosen channel(s) profoundly affect all other marketing decisions.
3. Companies use intermediaries when they lack the financial resources to carry out direct marketing, when direct marketing is not feasible, and when they can earn more by doing so. The most important functions performed by intermediaries are information, promotion, negotiation, ordering, financing, risk taking, physical possession, payment, and title.
4. Manufacturers have many alternatives for reaching a market. They can sell direct or use one-, two-, or three-level channels. Deciding which type(s) of channel to use calls for analyzing customer needs, establishing channel objectives, and identifying and evaluating the major alternatives, including the types and numbers of intermediaries involved in the channel.

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- Kotler, P., Keller, K. L., Ang, S. H., Leong, S. M., Tan, C. T. (2017). Marketing Management: An Asian Perspective. 7th edition. Singapore: Pearson.