15
Designing and Managing Integrated Marketing Channels
Chapter Questions

- What is a marketing channel system and value network?
- What work do marketing channels perform?
- How should channels be designed?
- What decisions do companies face in managing their channels?
- How should companies integrate channels and manage channel conflict?
- What are the key issues with e-commerce and m-commerce?
What is a Marketing Channel?

A marketing channel system is the particular set of interdependent organizations involved in the process of making a product or service available for use or consumption.
Intermediaries
Channels and Marketing Decisions

- A push strategy uses the manufacturer’s sales force, trade promotion money, and other means to induce intermediaries to carry, promote, and sell the product to end users
- A pull strategy uses advertising, promotion, and other forms of communication to persuade consumers to demand the product from intermediaries
REI Employs Hybrid Channels
Buyer Expectations for Channel Integration

- Ability to order a product online and pick it up at a convenient retail location
- Ability to return an online-ordered product to a nearby store
- Right to receive discounts based on total online and offline purchases
Table 15.1 Channel Member Functions

- Gather information
- Develop and disseminate persuasive communications
- Reach agreements on price and terms
- Acquire funds to finance inventories
- Assume risks
- Provide for storage
- Provide for buyers’ payment of their bills
- Oversee actual transfer of ownership
Figure 15.1 Marketing Flows in the Marketing Channel for Forklift Trucks

1. Physical Flow
   - Suppliers → Transporters, warehouses → Manufacturer → Transporters, warehouses → Dealers → Transporters → Customers

2. Title Flow
   - Suppliers → Manufacturer → Dealers → Customers

3. Payment Flow
   - Suppliers → Banks → Manufacturer → Banks → Dealers → Banks → Customers

4. Information Flow
   - Suppliers → Transporters, warehouses, banks → Manufacturer → Transporters, warehouses, banks → Dealers → Transporters, banks → Customers

5. Promotion Flow
   - Suppliers → Advertising agency → Manufacturer → Advertising agency → Dealers → Customers
Marketing Channel Levels

Order Online or Call 1-800-886-6582 Today!

“J’m April Stuart. I lost 30 pounds walking on my TreadClimber.”

Bowflex® Home Gyms
Professional Gym Equipment Quality
Enjoy a convenient, in-home workout with the superior quality of a professional gym.

Learn More >>

Bowflex® TreadClimber®
3-in-1 Cardio Machine
The Bowflex® TreadClimber® 3-in-1 fitness machine gives you the power to change your life.

Learn More >>

Bowflex® SelectTech® Dumbbells
30 Free-Weights in One System
Dial up real results. Put the power of 30 standard free weights into one compact system.

Learn More >>

Bowflex® International
Bowflex® Affiliate Program
Bowflex® Catalog

Copyright © 2010, Nautilus, Inc. All Rights Reserved.
Safety Notices
Figure 15.2 Consumer Markets

(a) Consumer Marketing Channels

0-level: Manufacturer -> Consumer
1-level: Manufacturer -> Wholesaler -> Retailer -> Consumer
2-level: Manufacturer -> Wholesaler -> Jobber -> Retailer -> Consumer
3-level: Manufacturer -> Wholesaler -> Retailer -> Consumer
Figure 15.2 Industrial Markets

(b) Industrial Marketing Channels

0-level
Manufacturer

1-level
Manufacturer

2-level
Manufacturer's representative
Industrial distributors

3-level
Manufacturer's sales branch
Industrial customer
Reverse-Flow Channels

- (1) to reuse products or containers (such as refillable chemical-carrying drums);
- (2) to refurbish products for resale (such as circuit boards or computers);
- (3) to recycle products (such as paper); and
- (4) to dispose of products and packaging.
Designing a Marketing Channel System

- Analyze customer needs
- Establish channel objectives
- Identify major channel alternatives
- Evaluate major channel alternatives
One study of 40 grocery and clothing retailers in France, Germany, and the United Kingdom found that they served three types of shoppers: (1) Service/quality customers who cared most about the variety and performance of products and service; (2) Price/value customers who were most concerned about spending wisely; and (3) Affinity customers who primarily sought stores that suited people like themselves or groups they aspired to join.
Figure 15.3 What European Consumers Value

**Clothing**

<table>
<thead>
<tr>
<th>Country</th>
<th>Service/quality customers</th>
<th>Price/value customers</th>
<th>Affinity customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>50</td>
<td>32</td>
<td>18</td>
</tr>
<tr>
<td>Germany</td>
<td>16</td>
<td>39</td>
<td>45</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>15</td>
<td>19</td>
<td>66</td>
</tr>
</tbody>
</table>

**Grocery**

<table>
<thead>
<tr>
<th>Country</th>
<th>Service/quality customers</th>
<th>Price/value customers</th>
<th>Affinity customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>40</td>
<td>27</td>
<td>25</td>
</tr>
<tr>
<td>Germany</td>
<td>13</td>
<td>42</td>
<td>45</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>13</td>
<td>32</td>
<td>55</td>
</tr>
</tbody>
</table>

Percent of respondents
Service Outputs of Channels

- Lot size
- Waiting and delivery time
- Spatial convenience
- Product variety
- Service backup
Service Outputs of Channels

Channels produce five service outputs:

1. Lot size is the number of units the channel permits a typical customer to purchase on one occasion. In buying cars for its fleet, Hertz prefers a channel from which it can buy a large lot size; a household wants a channel that permits a lot size of one.

2. Waiting and delivery time is the average time customers wait for receipt of goods. Customers increasingly prefer faster delivery channels.

3. Spatial convenience is the degree to which the marketing channel makes it easy for customers to purchase the product.

4. Product variety is the assortment provided by the marketing channel. Normally, customers prefer a greater assortment because more choices increase the chance of finding what they need, although too many choices can sometimes create a negative effect.

5. Service backup is the add-on services (credit, delivery, installation, repairs) provided by the channel. The greater the service backup, the greater the work provided by the channel.
Identifying Channel Alternatives

- Types of intermediaries
- Number of intermediaries
- Terms and responsibilities
Number of Intermediaries

- Exclusive
- Selective
- Intensive
Terms and Responsibilities of Channel Members

- Price policy
- Condition of sale
- Distributors’ territorial rights
- Mutual services and responsibilities
Figure 15.4 The Value-Adds versus Costs of Different Channels
Figure 15.5
Break-Even Cost Chart

![Break-Even Cost Chart](image-url)

Copyright © 2011 Pearson Education, Inc.  Publishing as Prentice Hall
Channel-Management Decisions

- Selecting channel members
- Training channel members
- Motivating channel members
- Evaluating channel members
- Modifying channel members
Channel Power

- Coercive
- Reward
- Legitimate
- Expert
- Referent
Channel Power

Coercive power means that the manufacturer threatens to withdraw a resource or terminate a relationship if intermediaries fail to cooperate.

- Reward power includes when the manufacturer offers intermediaries an extra benefit for performing specific acts or functions.
- Legitimate power includes the manufacturer requesting a behavior that is warranted under the contract.
- Expert power means the manufacturer has special knowledge the intermediaries value. Once the intermediaries acquire this expertise, however, expert power weakens.
- Referent power means the manufacturer is so highly respected that intermediaries are proud to be associated with it.
Channel Integration and Systems

- **Vertical marketing systems**
  - Corporate VMS
  - Administered VMS
  - Contractual VMS

- **Horizontal marketing systems**
  - Multichannel systems
Integrated Marketing Channel System
Figure 15.6 The Hybrid Grid

<table>
<thead>
<tr>
<th>Marketing Channels and Methods</th>
<th>Demand-generation Tasks</th>
<th>Facilitate product storage &amp; movement</th>
<th>Facilitate payment</th>
<th>Overseem ownership terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>VENDOR</td>
<td>Internet</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>National account management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Direct sales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Telemarketing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Direct mail</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Retail stores</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Distributors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dealers and value-added resellers</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Channel Conflict

- What types of conflict arise in channels?
- What causes conflict?
- What can marketers do to resolve it?
Channel Conflict

- Horizontal channel conflict occurs between channel members at the same level.
- Vertical channel conflict occurs between different levels of the channel.
- Multichannel conflict exists when the manufacturer has established two or more channels that sell to the same market.
Causes of Channel Conflict

- Goal incompatibility
- Unclear roles and rights
- Differences in perception
- Intermediaries’ dependence on manufacturer
Table 15.3 Strategies for Managing Channel Conflict

- Strategic justification
- Dual compensation
- Superordinate goals
- Employee exchange
- Joint memberships
- Cooptation
- Diplomacy
- Mediation
- Arbitration
- Legal recourse
Causes of Channel Conflict

- In some cases, a convincing strategic justification that they serve distinctive segments and do not compete as much as they might think can reduce potential for conflict among channel members.
- Dual compensation pays existing channels for sales made through new channels.
- Channel members can come to an agreement on the fundamental or superordinate goal they are jointly seeking, whether it is survival, market share, high quality, or customer satisfaction. They usually do this when the channel faces an outside threat, such as a more efficient competing channel, an adverse piece of legislation, or a shift in consumer desires.
- A useful step is to exchange persons between two or more channel levels.
- Similarly, marketers can encourage joint memberships in trade associations.
Causes of Channel Conflict

- Co-optation is an effort by one organization to win the support of the leaders of another by including them in advisory councils, boards of directors, and the like. When conflict is chronic or acute, the parties may resort to diplomacy, mediation, or arbitration.

- Diplomacy takes place when each side sends a person or group to meet with its counterpart to resolve the conflict.

- Mediation relies on a neutral third party skilled in conciliating the two parties’ interests.

- In arbitration two parties agree to present their arguments to one or more arbitrators and accept their decision.

- If nothing else proves effective, a channel partner may choose to file a lawsuit.
E-Commerce

Pure-click

Brick-and-click
M-Commerce
For Review

- What is a marketing channel system and value network?
- What work do marketing channels perform?
- How should channels be designed?
- What decisions do companies face in managing their channels?
- How should companies integrate channels and manage channel conflict?
- What are the key issues with e-commerce and m-commerce?