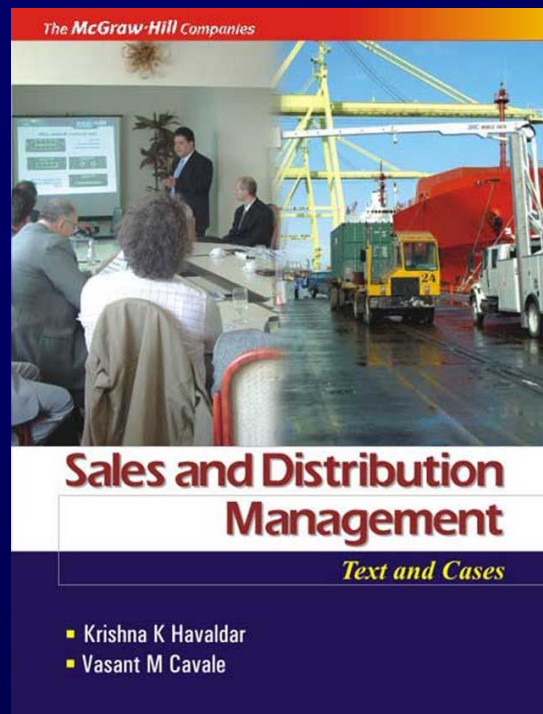


Marketing Channels



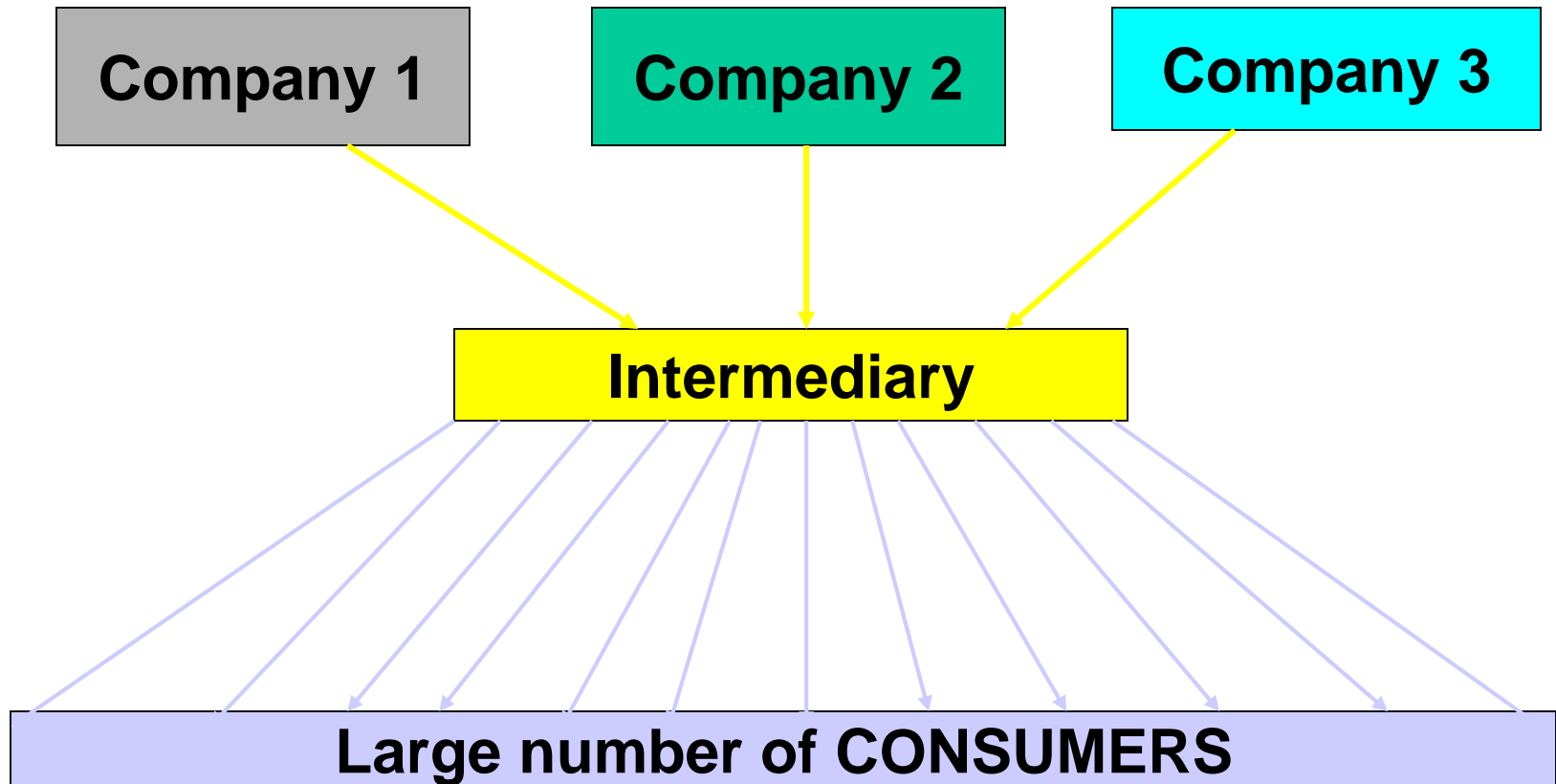
Learning Objectives

- Understand channel structure and how channels manage discrepancies
- Understand concept of channel flows
- Relationship of channel flows to service levels
- Understand channel formats and levels
- Understand what channel systems are expected to deliver
- Prominent marketing and channel systems

Channel Functions

- Information gathering
- Consumer motivation
- Bargaining with suppliers
- Placing orders
- Financing
- Inventory management
- Risk bearing
- After sales support

Role of Intermediaries



Direct Distribution

- Company to consumers or retailers without use of intermediaries. Also includes reaching Institutional buyers.
- Selling on the Internet
- If products are technically complex, this system is preferred
- Cost is a major consideration to adopt this mode

Direct Distribution - Examples

- Banking services
- Credit cards
- Petrol / diesel – company own outlets
- Land line phone connections
- Health services
- Utilities – electricity, water
- Subsidized ration
- Education

Indirect Distribution

- Goods may move through a set of **intermediaries**
 - Most FMCG companies follow this route
- The intermediary has a **far better reach** than the company
- The **cost of operations** of an intermediary like a wholesaler / retailer is shared with many businesses.

Indirect Distribution - Examples

- All FMCG, consumer durables and pharmaceutical
- Petrol / diesel / cooking gas - franchisees
- Insurance
- Mobile phones
- All kinds of passenger transport

Marketing Channel Systems

- Vertical:
 - Corporate
 - Administered
 - Contractual
- Horizontal
- Multi-channel

Vertical....

Vertical Marketing System

- Various parties like producers, wholesalers and retailers **act as a unified system to avoid conflicts**
- Improves **operating efficiency and marketing effectiveness**
- 3 types:
 - Corporate
 - Administered
 - Contractual

Corporate...

Corporate VMS

- **Combines** successive stages of production and distribution under single ownership
- Examples:
 - Bata, Bombay Dyeing, Raymond
 - Sears, Goodyear
 - Suppliers of food items could be also their own supplying firms - like Nilgiris

Administered VMS

- Co-ordinates distribution activities
- Gains market power by dominating a channel
- Usually true of dominant brands like GE, Kodak, Pepsi, Gillette, Coke and HLL in certain locations
 - Command high level of co-operation in shelf space, displays, pricing policies and promotion strategies

Contractual...

Contractual VMS

- Independent producers, wholesalers and retailers **operate on a contract**
- Could take the forms of:
 - Wholesaler sponsored voluntary chains
 - Retailer co-operatives
 - Manufacturer sponsored retail or wholesale franchise
 - Franchise organizations
 - Service firm sponsored retail franchise

Horizontal Marketing Systems

- Two or more unrelated companies join together to pool resources and exploit an emerging market opportunity
 - In-store banking in hotels, big stores
 - Retail outlets in petrol bunkers
 - Coffee Day outlets in airports

Multi-channel...

Multi-channel Distribution

- Company uses different channels to reach / same or different market segments
 - Most FMCG companies have **separate networks for retail market and institutions**
 - Pharma companies may use different channels to reach doctors, chemists and hospitals

Multi-channel Distribution

- **Used in situations where:**
 - Same product but different market segments
 - Unrelated products in same market – detergents and ice creams (HLL)
 - Size of buyers varies
 - Geographic concentration of potential consumers varies
 - Reach is difficult

Distribution Channels

- Take care of the following **'discrepancies'**
 - Spatial
 - Temporal
 - Breaking bulk
 - Assortment and
 - Financial support

Spatial Discrepancy

- The channel system helps reduce the **'distance'** between the producer and the consumer of his products.
 - Consumers are scattered
 - Have to be reached cost effectively
- **Example:** companies produce products in one location even for global needs

Temporal Discrepancy

- The channel system helps in **speeding up** in meeting the requirement of the consumers
 - Time when the product is made and when it is consumed is different
 - Limited number of production points but hundreds of consumers
- Maruti plant in Gurgaon – cars and spares are available when the consumer wants

Breaking Bulk

- The channel system reduces **large quantities** into consumer **acceptable lot sizes**
 - Production has to be in large quantities to benefit from economies of scale
 - Consumption is necessarily in small lot sizes
- **India is the ultimate example in breaking bulk** – you can buy one cigarette, one Anacin, one toffee etc

Need for Assortment

- The channel system helps **aggregate a range of products** for the benefit of the consumer – it could be made by one company or several of them.
 - For the same product, it could be a **variety** of brands and pack sizes
- MICO makes fuel injection equipment, spark plugs etc in different plants but its dealer will sell the entire range.

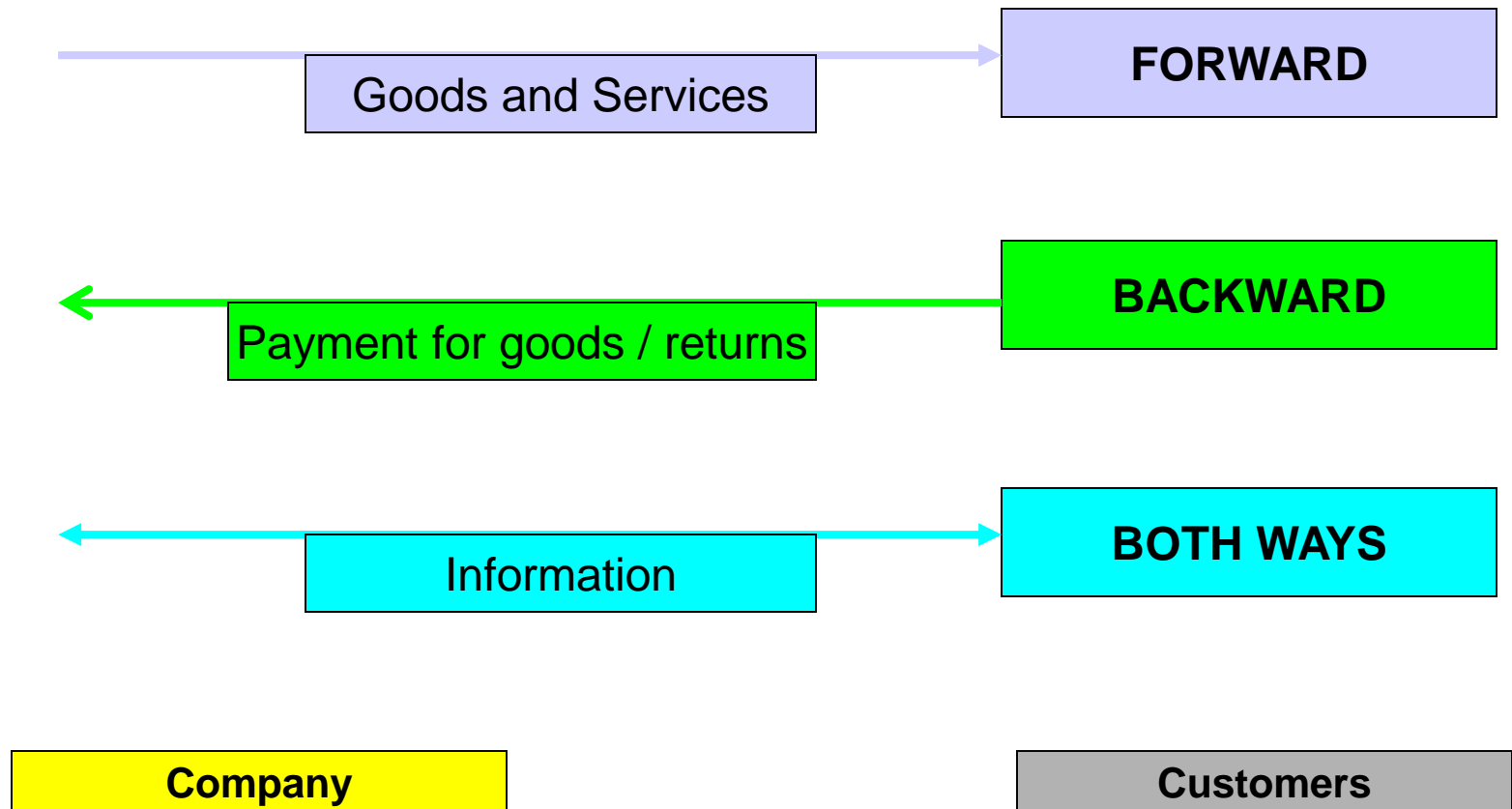
Financial Support

- The channel system provides critical working capital to its customers by **extending credit**.
- Some channel members like stockists and wholesalers **finance the business** of their customers.
 - Medical diagnostic equipment to hospitals

Channel Flows

- **Forward flow** – company to its customers – goods and services
- **Backward flow** – customers to the company – payment for the goods. Returned goods.
- **Flows both ways** - information

Three Flows Recognized



The Five Channel Flows

- Physical flow of goods
- Title flow of goods (negotiation, ownership and risk sharing also)
- Payment flows (financing and payment)
- Information flow (about goods, orders placed and orders executed)
- Promotion flows

Who is responsible?

Channel Flows

- Some channel member/s have to perform them
- There is a **cost associated** with each flow
- If a channel member is discontinued, the flow has to be performed by another
- All flows and transactions can be effective only with **timely, accurate and correct information**
- The channel flow is ideally to be handled by the most competent channel member who can deliver best service at the lowest cost.

Degree of Involvement

Manufacturer	C&FA or Distribution Center	Distributor, dealers	Wholesaler or retailer
Physical Title / ownership Information Risk sharing Promotions	Physical Title Information Payment Order processing	Physical Title / ownership Information Payment Order placement Negotiation Risk sharing Promotions	Physical Title / ownership Information Payment Order placement Negotiation Risk sharing Promotions

Channel Formats

- Is decided by who **'drives'** the channel system:
 - Producer driven
 - Seller driven
 - Service driven
 - Others

Producer Driven

- This is the **effort of the manufacturer** to reach the product to his consumers. Examples:
 - Company owned retail outlets – petrol, Bata, Reliance mobiles
 - Licensed outlets – KMF
 - Consignment selling agents
 - Franchisees
 - Brokers
 - Vending machines
 - Company contracted distributors

Seller Driven

- Use of **existing channels** to reach the largest number of end users
 - Existing wholesalers and retailers
 - Modern retail formats
 - Specialty stores – Shoppers' Stop
 - Discount stores – Subhiksha
 - Pheriwalas

Service Driven

- These are the people who facilitate the distribution
 - Transporters and freight forwarders
 - Providers of warehouse space
 - C&F agents
 - 3P Logistics service providers
 - Couriers

Other formats

- Multi-level marketing systems – Amway, Modicare, Tupperware, Herbalife
- Co-operative societies
- Telephone kiosks
- TV home shopping
- Catalogue marketing
- The internet
- Exhibitions, fairs and trade shows
- Data base marketing

Channel levels...

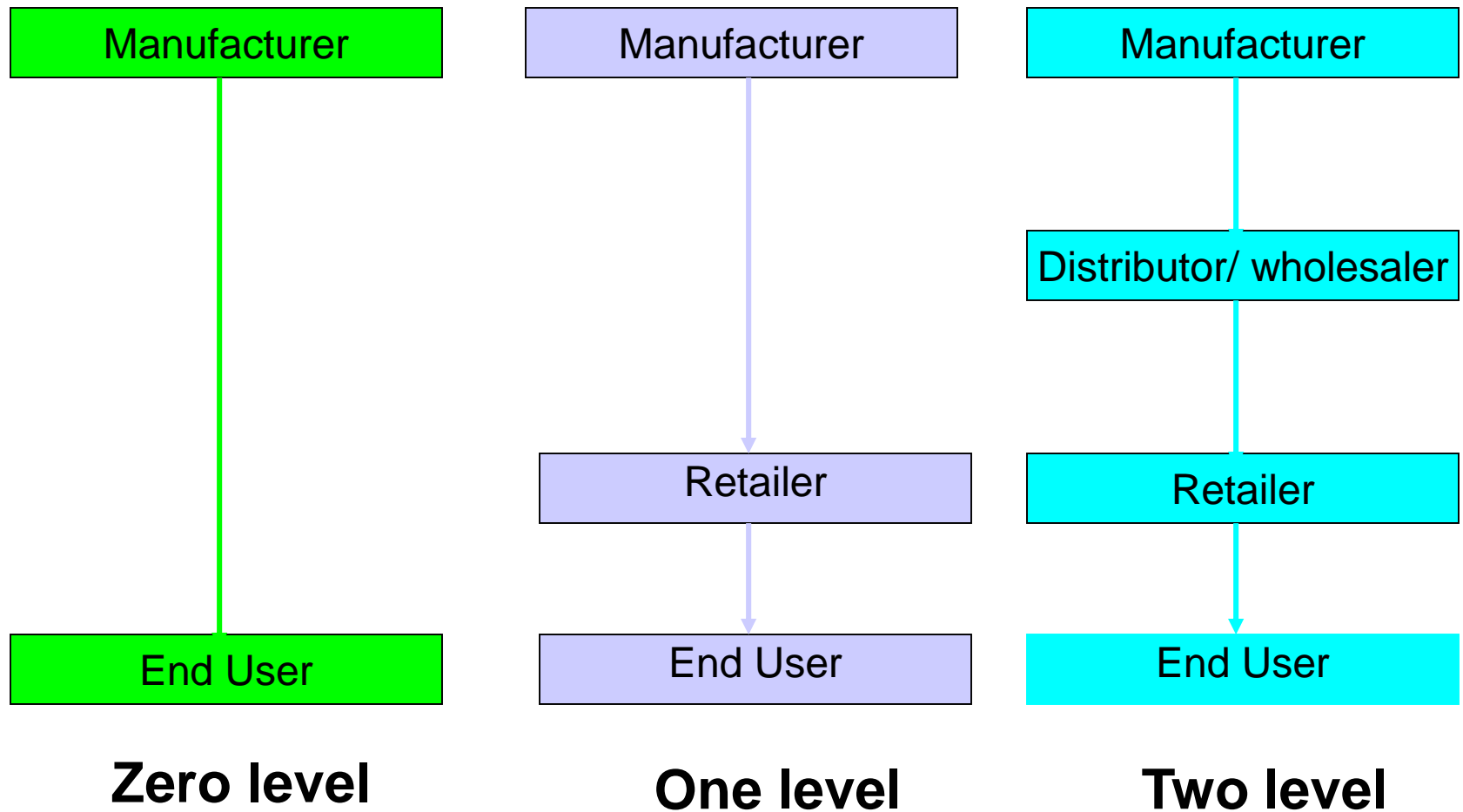
Channel Levels

- **Zero level** – if the product or service is provided to the end user directly by the company.
 - Used mostly by companies delivering service like health, education, banking (also known as service channels)
- **One level** – consists of one intermediary
- **Two level** – consists of two intermediaries and is the most common for FMCG products

Service Channel

- Companies establish their **own unique channels to deliver services** like health, education, banking, insurance etc
 - Hundreds of bank branches to be close to prospects
 - Banks may also recruit independent agents to get customers to walk in
 - Consulting or IT firm uses one team for Biz Development and another for execution
 - Musician or magician may use mass media, events or web sites to reach customers

Channel Levels



Key Learnings

- Marketing channels are responsible for **flows** – physical possession, title, payments, information and promotion covered by forward, backward and flows both ways
- Each channel partner has a **different role** in supporting customer service through suitable channel flows
- Number of categories operating in a channel system define the **channel levels as one, two etc**

Key Learnings

- Channel system deliverables are: bulk breaking, place utility, reduced waiting time, providing assortment, financial help, installation and after sales support.
- Customer service has to be done at optimum cost
- Marketing channel systems are categorised as vertical, horizontal and multi-channel depending on the structure and the functionality