Lesson- 36

DISTRIBUTION CHANNELS (Cont….)

The Distribution Channel

Frequently there may be a chain of intermediaries, each passing the product down the chain to the next organization, before it finally reaches the consumer or end-user. This process is known as the 'distribution chain' or, rather more exotically, as the 'channel'.

Each of the elements in these chains will have their own specific needs; which the producer must take into account, along with those of the all-important end-user.

Channel Members

Distribution channels can, thus, have a number of `levels'. Kotler defined the simplest level, that of direct contact with no intermediaries involved, as the **`zero-level'** channel.

The next level, the **`one-level'** channel, features just one intermediary; in consumer goods a retailer, for industrial goods a distributor, say. In recent years this has been the level which, together with the zero-level, has accounted for the greatest percentage of the overall volumes distributed in, say, the UK; although the very elaborate distribution systems in Japan are at the other end of the spectrum, with many levels being encountered even for the simplest of consumer goods.

In the UK, a second level, a wholesaler for example, is now mainly used to extend distribution to the large number of small, neighborhood retailers.

Channel Structure

To the various `levels' of distribution, which they refer to as the `channel length'.

- **Conventional or free-flow** - This is the usual, widely recognized, channel with a range of `middle-men' passing the goods on to the end-user.

- **Single transaction** - A temporary `channel' may be set up for one transaction; for example, the sale of property or a specific civil engineering project. This does not share many characteristics with other channel transactions, each one being unique.

- **Vertical marketing system** (VMS) - In this form, the elements of distribution are integrated.

The Internal Market

Many of the marketing principles and techniques which are applied to the external customers of an organization can be just as effectively applied to each subsidiary's, or each department's, 'internal' customers.

In some parts of certain organizations this may in fact be formalized, as goods are transferred between separate parts of the organization at a `transfer price'. To all intents and purposes, with the possible exception of the pricing mechanism itself, this process can and should be viewed as a normal buyer-seller relationship. The fact that this is a captive market, resulting in a `monopoly price', should not discourage the participants from employing marketing techniques.

Less obvious, but just as practical, is the use of `marketing' by service and administrative departments; to optimize their contribution to their `customers' (the rest of the organization in general, and those parts of it which deal directly with them in particular). In all of this, the lessons of the non-profit organizations, in dealing with their clients, offer a very useful parallel.

Channel Decisions

- Overall strategy
- Channel strategy
- Product (or service)
- Cost and Consumer location

Channel Management

The channel decision is very important. In theory at least, there is a form of trade-off: the cost of using intermediaries to achieve wider distribution is supposedly lower. Indeed, most consumer goods manufacturers could never justify the cost of selling direct to their consumers, except by mail order. In practice, if the producer is large enough, the use of intermediaries (particularly at the agent and wholesaler level) can sometimes cost more than going direct.

Many of the theoretical arguments about channels therefore revolve around cost. On the other hand, most of the practical decisions are concerned with control of the consumer. The small company has no alternative but to use intermediaries, often several layers of them, but large companies 'do' have the choice.

However, many suppliers seem to assume that once their product has been sold into the channel, into the beginning of the distribution chain, their job is finished. Yet that distribution chain is merely assuming a part of the supplier's responsibility; and, if he has any aspirations to be market-oriented, his job should really be extended to managing, albeit very indirectly, all the processes involved in that chain, until the product or service arrives with the end-user. This may involve a number of decisions on the part of the supplier:

- Channel membership
- Channel motivation
- Monitoring and managing channels

Channel membership

1.**Intensive distribution** - Where the majority of resellers stock the `product' (with convenience products, for example, and particularly the brand leaders in consumer goods markets) price competition may be evident.

2.**Selective distribution** - This is the normal pattern (in both consumer and industrial markets) where `suitable' resellers stock the product.

3.**Exclusive distribution** - Only specially selected resellers (typically only one per geographical area) are allowed to sell the `product'.

Channel motivation

It is difficult enough to motivate direct employees to provide the necessary sales and service support. Motivating the owners and employees of the independent organizations in a distribution chain requires even greater effort. There are many devices for achieving such motivation. Perhaps the most usual is `bribery': the supplier offers a better margin, to tempt the owners in the channel to push the product rather than its competitors; or a competition is offered to the distributors' sales personnel, so that they are tempted to push the product. At the other end of the spectrum is the almost symbiotic relationship that the all too rare supplier in the computer field develops with its agents; where the agent's personnel, support as well as sales, are trained to almost the same standard as the supplier's own staff.

Monitoring and managing channels

In much the same way that the organization's own sales and distribution activities need to be monitored and managed, so will those of the distribution chain.

In practice, of course, many organizations use a mix of different channels; in particular, they may complement a direct sales force, calling on the larger accounts, with agents, covering the smaller customers and prospects.

Vertical marketing

This relatively recent development integrates the channel with the original supplier - producer, wholesalers and retailers working in one unified system. This may arise because one member of the chain owns the other elements (often called `corporate systems integration'); a supplier owning its own retail outlets, this being 'forward' integration. It is perhaps more likely that a retailer will own its own suppliers, this being 'backward' integration. (For example, MFI, the furniture retailer, owns Hygena which makes its kitchen and bedroom units.) The integration can also be by franchise (such as that offered by McDonald's hamburgers and Benetton clothes) or simple co-operation (in the way that Marks & Spencer co-operates with its suppliers).

Alternative approaches are `contractual systems', often led by a wholesale or retail co-operative, and `administered marketing systems' where one (dominant) member of the distribution chain uses its position to co-ordinate the other members' activities. This has traditionally been the form led by manufacturers.

The intention of vertical marketing is to give all those involved (and particularly the supplier at one end, and the retailer at the other) 'control' over the distribution chain. This removes one set of variables from the marketing equations.

Other research indicates that vertical integration is a strategy which is best pursued at the mature stage of the market (or product). At earlier stages it can actually reduce profits. It is arguable that it also diverts attention from the real business of the organization. Suppliers rarely excel in retail operations and, in theory, retailers should focus on their sales outlets rather than on manufacturing facilities (Marks & Spencer, very deliberately provides considerable amounts of technical assistance to its suppliers, but does not own them).

Horizontal marketing
A rather less frequent example of new approaches to channels is where two or more non-competing organizations agree on a joint venture - a joint marketing operation - because it is beyond the capacity of each individual organization alone. In general, this is less likely to revolve around marketing synergy.