Objective 4.08

Channel Management

What is it?

- **Channel**
- A path through which goods and services flow in one direction (from vendor to the consumer), and the payments generated by them that flow in the opposite direction (from consumer to the vendor).

Channel Length

- **Channel length** is the total number of channel members in a channel of distribution

Channel members

- **Channel members** are business or individuals who assist in moving goods and services from the producer to the consumer

Channel Functions

- Providing marketing information
  - Market research to determine needs & wants (small business producing handmade greeting cards)
- Promoting products
  - Can be expensive; retailers take large portion of promotion responsibilities (local supermarkets/discount stores)
- Negotiating with customers (diff. prices paid by wholesaler, retailer, and consumer based on negotiation, including delivery & installation)
- Physical distribution (large quantities to wholesalers & retailers)
- Financing & risk taking: each channel costs money; working together to be effective

When a channel is most effective

- Properly managed channel: recognize the task and make informed decisions
- Channel members share common goal
  - Commitment to quality
  - Satisfy target market’s needs and wants
- Channel members share tasks
  - Tasks assigned to those who perform best

Channel Management Decisions

- **Setting channel objectives**
  - Determine what the company is trying to achieve
  - Meet the needs and wants of their target market
  - Give their product a competitive edge
  - **Indirect distribution:** middlemen
  - **Direct distribution:** dealing with the final consumers directly

Channel management decisions

- **Determining distribution patterns**
  - Achieve **ideal market exposure** (make their product available without over exposing and losing money)

  - To achieve market exposure, marketers must determine **distribution intensity**

Channel management decisions

- **Selecting channel members**
  - Determine the types of members the belong in the channel, as well as the **channel length** (total number of channel members)
  - Usually based on the nature of the product (perishable vs non pershible)
  - **Factors to consider:**
    - Create product value that others cannot or are not willing to provide
    - Channel the product to its desired market
    - Have a pricing and promotion strategy compatible with the product's needs
    - Offer customer service compatible with the products needs
    - Be willing and able to work cooperatively with other members within the product's channel

Channel management decisions

- **Determining channel responsibilities**
  - Members must work together appropriately and perform the tasks they are best suited for
- **Managing, motivating, and monitoring channel members**
  - Marketers should constantly evaluate the channel
    - What is working?
    - What is not working?
    - What can be improved?

Channel management decisions

- **Motivation can be positive or negative**
  - Sanctions may be imposed on middlemen not performing well
  - Chargebacks – financial penalties assessed for a variety of problems
  - Incentives may be offered for reaching performance goals

How channel members add value

- Every channel member should add value to the product as it moves through the channel
- Adding value to the product benefits all channel members
- Being able to perform one or more activities needed to get the product to the final consumer
- Ex: Retailers may create exciting visual displays in their stores to promote a product
  - By performing this task, retailers can add value to the product and benefit every member in the channel.

Channel design decisions

- **Analyzing customer needs**
- **Setting channel objectives**
- **Identifying major alternatives**
  - Types of intermediaries
  - Number of intermediaries
  - Responsibilities of intermediaries

Types of distribution

- Exclusive distribution
- Selective distribution
- Intensive Distribution

Types of distribution

- **Intensive distribution** is where a producer sells a product through every available wholesaler and retailer in a geographic area where consumers might look for it
- Used when trying to reach greatest number of customers (convenience items – gum)

(mass marketing – light bulbs)

- **Selective distribution** is where a producer sells a product through a limited number of middlemen in a geographic area (high end clothing manufacturers)

Exclusive distribution

- **Exclusive distribution** is a distribution pattern in which a producer sells a product through just one middle man in a geographic area
- Used to maintain tight control over a product
- Specialty products: airplanes, large machinery

Conflict

- Horizontal Conflict
  - occurs between channel members at the same level
  - Good, old-fashioned business competition
  - Ex: two retailers selling pet supplies compete to sell to the same target market(PetSmart and Pet Supermarket)

- Vertical Conflict
  - occurs between channel members at different levels within the same channel
  - Producers and wholesalers or producers and retailers

    (West Produce and Sams Club)