

Nature & Importance of Marketing Channels

- **Channel choices affect other decisions in the marketing mix**
 - **Pricing, Marketing communications**
- **A strong distribution system can be a competitive advantage**
- **Channel decisions involve long-term commitments to other firms**

Key Functions Performed by Channel Members

- **Information**
- **Promotion**
- **Contact**
- **Matching**
- **Negotiation**
- **Physical Distribution**
- **Financing**
- **Risk taking**

Channel Management Decisions

- **Selecting Channel Members**
 - **Identify characteristics that distinguish the best channel members**
- **Managing and Motivating Channel Members**
 - **Partner relationship management (PRM) is key**
- **Evaluating Channel Members**
 - **Performance should be checked against standards**
 - **Channel members should be rewarded or replaced as dictated by performance**

Retailing and Wholesaling

- **Retailing**
 - **All activities involved in selling goods or services directly to final consumers for their personal, non business use.**
- **Retailer**
 - **Business whose sales come *primarily* from retailing.**

Current Trends in Retailing

- Growth of non-store retailing**
 - Mail-order, television, phone, online shopping**
- Retail convergence**
- Rise of mega-retailers**
- Growing importance of retail technology**
- Global expansion of major retailers**
- Retail stores as “Communities” or “Hangouts”**

Definitions

- **Wholesaling**
 - **All activities involved in selling goods and services to those buying for resale or business use.**
- **Wholesaler**
 - **A firm engaged primarily in wholesaling activity.**

Wholesaling

- **Current Trends in Wholesaling**
 - **Price competition is still intense**
 - **Successful wholesalers must add value by increasing efficiency and effectiveness**
 - **The distinction between large retailers and wholesalers continues to blur**
 - **More services will be provided to retailers**
 - **Many wholesalers are going global**

Functions of a retailer

- ❖ From the customer point of view, the retailer serves him by providing the goods that he needs in the required assortment, at the required place and time.
- ❖ From an economic standpoint, the role of a retailer is to provide real added value or utility to the customer. This comes from four different perspectives

1. Form: First is utility regarding the *form* of a product that is acceptable to the customer.

- The retailer does not supply raw material, but rather offers finished goods and services in a form that the customers want.
- The retailer performs the function of sorting the goods and providing us with an assortment of product in various categories.

2. Time: He creates *Time* utility by keeping the store open when the consumers prefer to shop.

- preferable shopping hours.

3. **Place:** By being available at a convenient location, he creates *place* utility.

4. **Ownership:** Finally, when the product is sold, *ownership* utility is created.

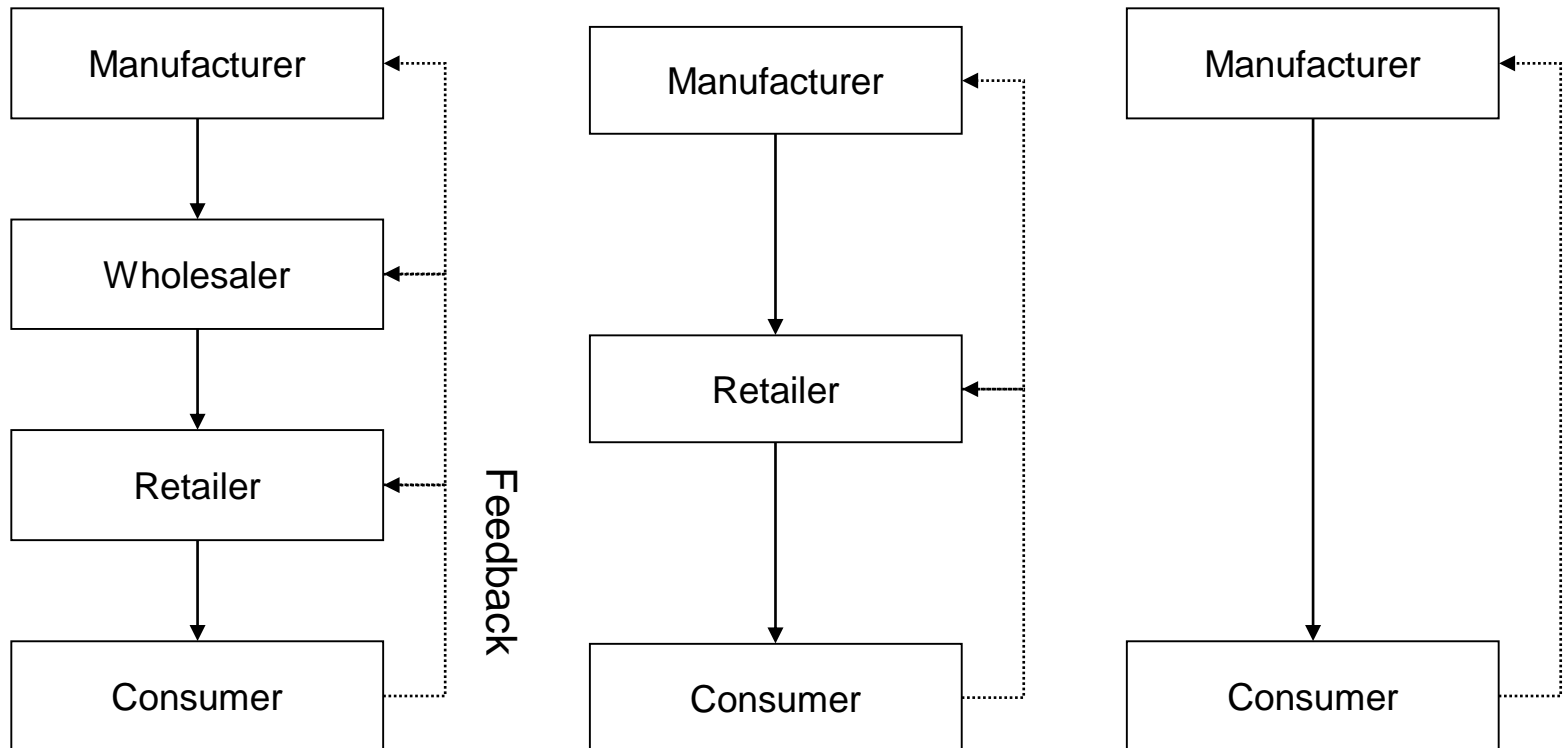
Apart from these functions retailer also performs like:

5. **Arranging Assortment:** manufacturers usually make one or a variety of products and would like to sell their entire inventory to few buyers to reduce costs. Final consumers, in contrast prefer a large variety of goods and services to choose from and usually buy them in small units.

- Retailers are able to balance the demands of both sides, by collecting an assortment of goods from different sources, buying them in sufficiently large quantities and selling them to consumers in small units

6. **Breaking Bulk:** to reduce transportation costs, manufacturer and wholesalers typically ship large cartons of the products, which are then tailored by the retailers into smaller quantities to meet individual consumption needs
7. **Holding stock:** Retailers maintain an inventory that allows for instant availability of the product to the consumers. It helps to keep prices stable and enables the manufacture to regulate production.
8. **Promotional support:** small manufacturers can use retailers to provide assistance with transport, storage, advertising, and pre-payment of merchandise.

The Marketing - Retail Equation



Channel Conflict

- *A channel conflict may be defined as “A situation in which one channel member perceives another channel member(s) to be engaged in behavior that prevents it from achieving its goals”.*
- *Conflict is opposition, disagreement or discard among the organizations.*

- Conflict is not always undesirable.
- It is needed to have positive effect as loopholes in the existing system can be plugged timely and performance can be maximized.
- It can keep other channel members on their toes knowing that a decline in performance might lead to a change in the channel arrangements.
- “Channel conflict arises when the behavior of a channel member is in opposition, to its channel counterpart. It is opponent centered and direct, in which the goal or object sought is controlled by the counterpart.”

Coughlan, Anderson,

Conflicts can also be classified as

- *Vertical conflict*
- *Horizontal conflict*
- *Inter type conflict*
- *Multi Channel conflict*

Vertical conflicts

- *Vertical conflicts occur due to the differences in goals and objectives, misunderstandings, and mainly due to the poor communication*
- *Lack of role clarity and over dependence on the manufacturers. For e.g. Today the large retailers dominate the market and dictate the terms. Hence there are often conflicts between these giant retailers and the manufacturers.*

- Wholesalers expect manufacturers to maintain the product quality and production schedules and expect retailers to market the products effectively. In turn, retailers and manufacturers expect wholesalers to provide coordination functional services. If they fail to conform each others expectations, channel conflict results.

Some common reasons for vertical conflict are

- **Dual distribution** i.e. manufacturers may bypass intermediaries and sell directly to consumers and thus they compete with the intermediaries.
- **Over saturation**, i.e. manufacturers permit too many intermediaries in a designated area that can restrict, reduce sales opportunities for individual dealer and ultimately shrink their profits.

- **Partial treatment**, i.e. manufacturers offer different services and margins to the different channels members even at same level or favor some members.
- **New channels**, i.e. manufacturers develop and use innovative channels that create threat to establish channel participants.
- **No or inadequate sales support and training to intermediaries from the manufacturers.**
- **Irregular communication, non co-operation and rude behavior with the channel members.**

Horizontal conflicts

- *Horizontal conflicts are the conflicts between the channel members at the same level, i.e. two or more retailers, two or more franchisees etc. These conflicts can offer some positive benefits to the consumers. Competition or a price war between two dealers or retailers can be in favor of the consumers.*

Reasons behind horizontal conflicts

Price-off by one dealer / retailer can attract more customers of other retailers.

- Aggressive advertising and pricing by one dealer can affect business of other dealers.*
- Extra service offered by one dealer / retailer can attract customers of others.*
- Crossing the assigned territory and selling in other dealers / retailers / franchises area.*
- Unethical practices or malpractices of one dealer or retailer can affect other and spoil the brand image.*

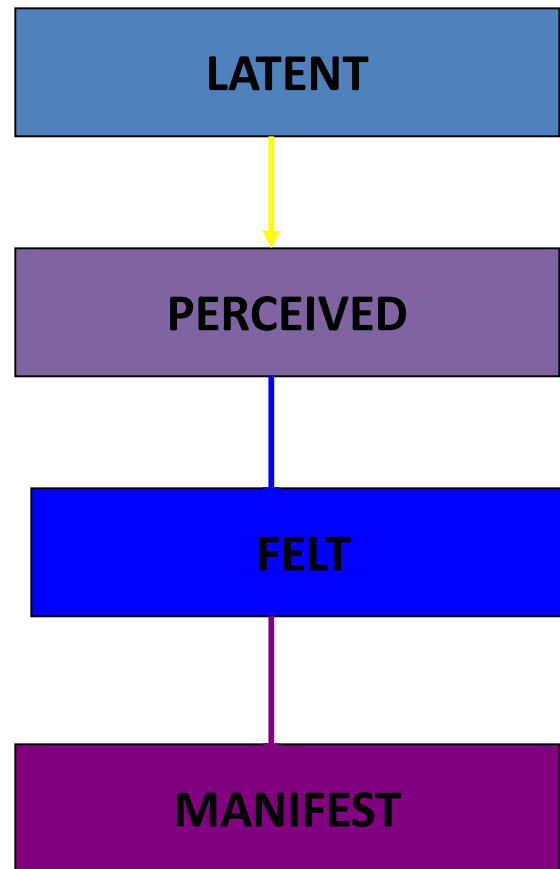
Inter Type conflict

- *Inter type conflict occurs when, the Intermediaries dealing in a particular product starts trading outside their normal product range. For example, now the supermarkets such as Foodworld also sell vegetables and fruits and thus compete with small retailers selling these products. Large retailers often offer a large variety and thus they compete with small but specialized retailers. This concept is called as “Scrambled Merchandising” where the retailers keep the merchandise lines that are outside their normal product range.*

Multi-channel Conflict

- Multi-channel conflict occurs when the manufacturer uses a dual distribution strategy, i.e. the manufacturer uses two or more channel arrangements to reach to the same market.
- Manufacturers can sell directly through their exclusive showroom or outlets. This act can affect the business of other channels selling manufacturer's brands.
- Manufacturers can bypass the wholesalers and sell directly to the large retailers. Conflict becomes more intense in this case as the large retailers can enjoy more customers and so the profit due to offering more variety and still economical prices, which is possible due to a volume purchase.

FOUR STAGES OF CONFLICT



Each stage is progressively more severe than the earlier one.

STAGES OF CONFLICTS

Latent Conflict:

- ❖ Some amount of discord exists but does not affect the working or delivery of customer service objectives.
- ❖ Disagreement could be on roles, expectations, perceptions, communication.

Perceived Conflict:

- ❖ Discords become noticeable – channel partners are aware of the opposition.
- ❖ Channel members take the situation in their stride and go about their normal business.
- ❖ No cause for worry but the opposition has to be recognized.

STAGES OF CONFLICTS

Felt Conflict:

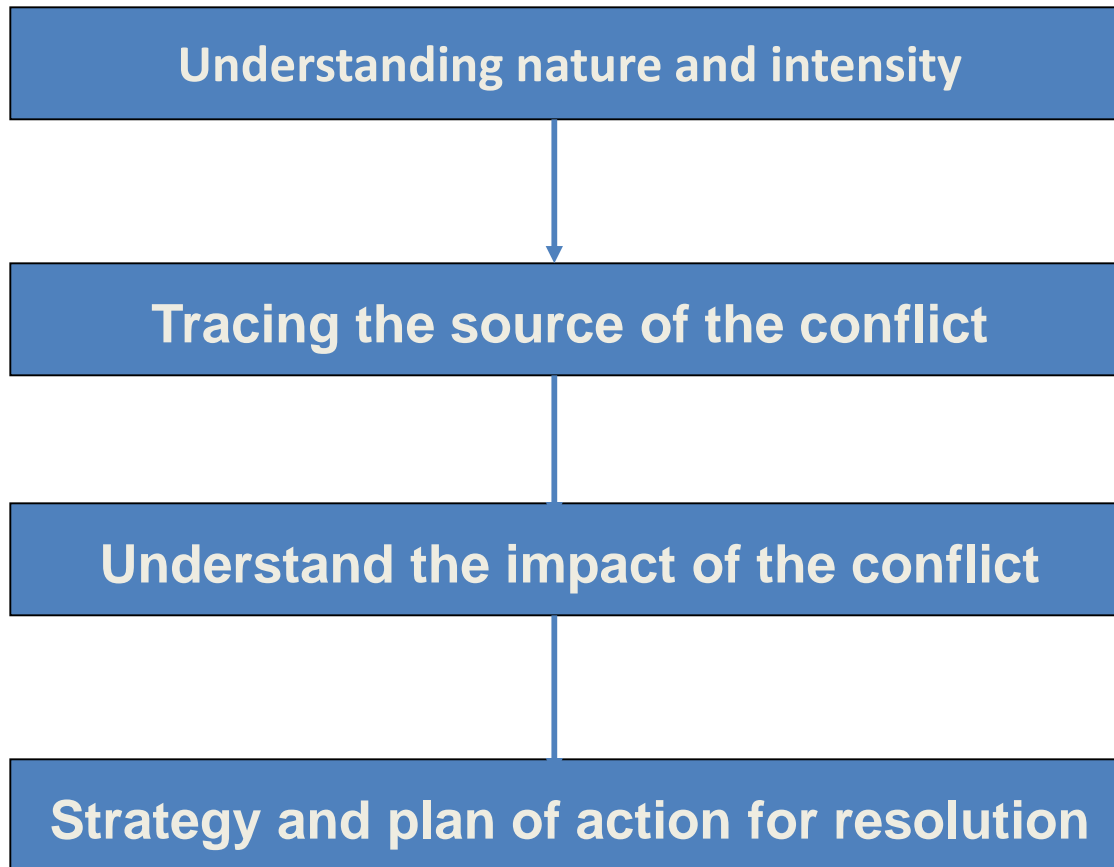
- ❖ Reaching the stage of worry, concern and alarm. Also known as 'affective' conflict.
- ❖ Parties are trying to outsmart each other.
- ❖ Causes could be economical or personal.
- ❖ Needs to be managed effectively and not allowed to escalate.

Manifest Conflict:

- ❖ Reflects open antagonistic behaviour of channel partners. Confrontation results.
- ❖ Initiatives taken are openly opposed affecting the performance of the channel system.
- ❖ May require outside intervention to resolve.

RESOLVING CONFLICTS

A 4 Stage Process



CONFLICT RESOLUTION STYLES

Avoidance

Aggression

Accommodation

Compromise

Collaboration

Least effort and
results

Maximum effort and
Best results

Styles are a combination
of assertiveness and
co-operation.



AVOIDANCE

- ☀ Used by weak channel members.
- ☀ Problem is postponed or discussion avoided.
- ☀ Relationships are not of much importance.
- ☀ As there is no serious effort on getting anything done, conflict is avoided.

AGGRESSION

- ☀️ Also known as a competitive or selfish style.
- ☀️ It means being concerned about one's own goals without any thought for the others.
- ☀️ The dominating channel partner (may be the principal) dictates terms to the others. Long term could be detrimental to the system.

ACCOMMODATION

- ☀️ A situation of complete surrender.
- ☀️ One party helps the other achieve its goals without being worried about its own goals.
- ☀️ Emphasis is on full co-operation and flexibility in approach. May generate matching feelings in the receiver.
- ☀️ If not handled properly, can result in exploitation.

COMPROMISE

- ☀️ Obviously both sides have to give up something to meet mid way.
- ☀️ Can only work with small and not so serious conflicts.
- ☀️ Used often in the earlier two stages.

COLLABORATION

- ☀️ Also known as a problem solving approach.
- ☀️ Tries to maximize the benefit to both parties while solving the dispute.
- ☀️ Most ideal style of conflict resolution – a win-win approach.
- ☀️ Requires a lot of time and effort to succeed.
- ☀️ Sensitive information may have to be shared.

Promotion

Personal Selling

Advertising

Publicity

Sales Promotion

Personal Selling

Direct communication between seller and buyer

Face to face contact

Usually used to sell industrial goods and services

Also used to sell some expensive consumer items, eg. Cars, computer systems

Advertising

communicating with large numbers of potential customers

“non”-personal selling

used when the target market is large and dispersed

Advertising is a form of Mass Selling

Advertising

the main form of mass selling

any paid form of non-personal communication
eg. Techniques include billboard ads and TV
commercials

Publicity

The generation of awareness about a product beyond regular advertising methods.

Usually less costly than advertising because sometimes the message is spread for free by a newspaper article or TV story.

Publicity

Examples of Publicity

famous person photographed using your product

your product mentioned in National News in a positive way

your product featured in a movie

TV commentary about aspects of your product trade magazines carrying a story

eg. Road and Track doing a feature on the new Landrover

Publicity

Publicity can be negative

eg. If a famous movie star gets electrocuted using your product, this can cause people to NOT want to buy it - this would be a major problems

eg. If your product is sabotaged - this could include tampering with medical products ie. Tylenol

eg. If there are negative rumours about the ingredients in your product

eg. If there are negative ingredients about the moral aspects of your company

Sales Promotion

Sales Promotion includes:

- Point-of-purchase advertising
- specialty advertising
- samples
- coupons
- premiums
- loyalty points / air miles
- rebates
- contests

4 promotion jobs

A.I.D.A.

Attention

Interest

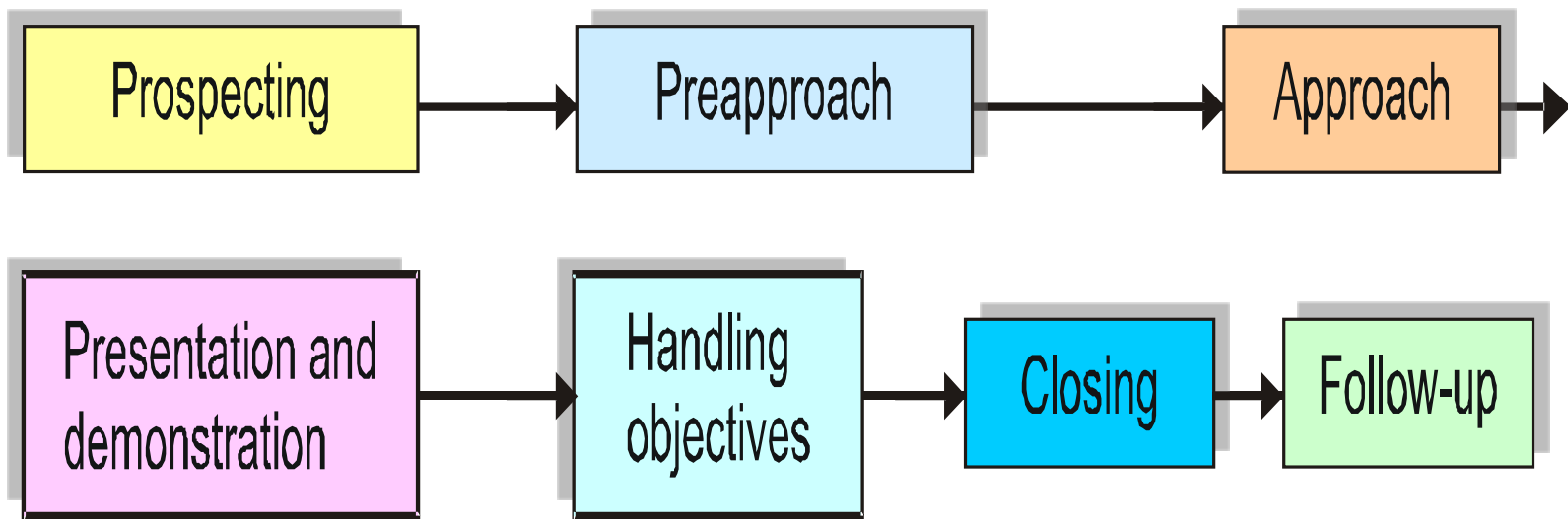
Desire

Action

Personal Selling

Successful personal selling calls for an integrated approach devised from the experience of the sales personnel. The approach comprises the steps as shown in the figure here. E

Steps in Personal Selling



Cont....

Advertising Budgeting Methods

- Objectives-and-tasks method
- Percentage-of-sales method
- Competitive parity method
- All-you-can-afford
- Arbitrary allocation
- Quantitative or experimental model

The Advertising Budgeting Methods

Historical Method

- Common budgeting method.
- May be based on last year's with a percentage increase.
- Nothing to do with advertising objectives.

Task-Objective Method: Bottom-Up

- Most common method.
- Looks at objectives set for each activity, and determines the cost of accomplishing each objective.

Percentage-of-Sales Method

- Compares total sales with the total advertising (or marketing communication) budget during a previous time period to compute a percentage.

The Advertising Budgeting Methods

Competitive Methods

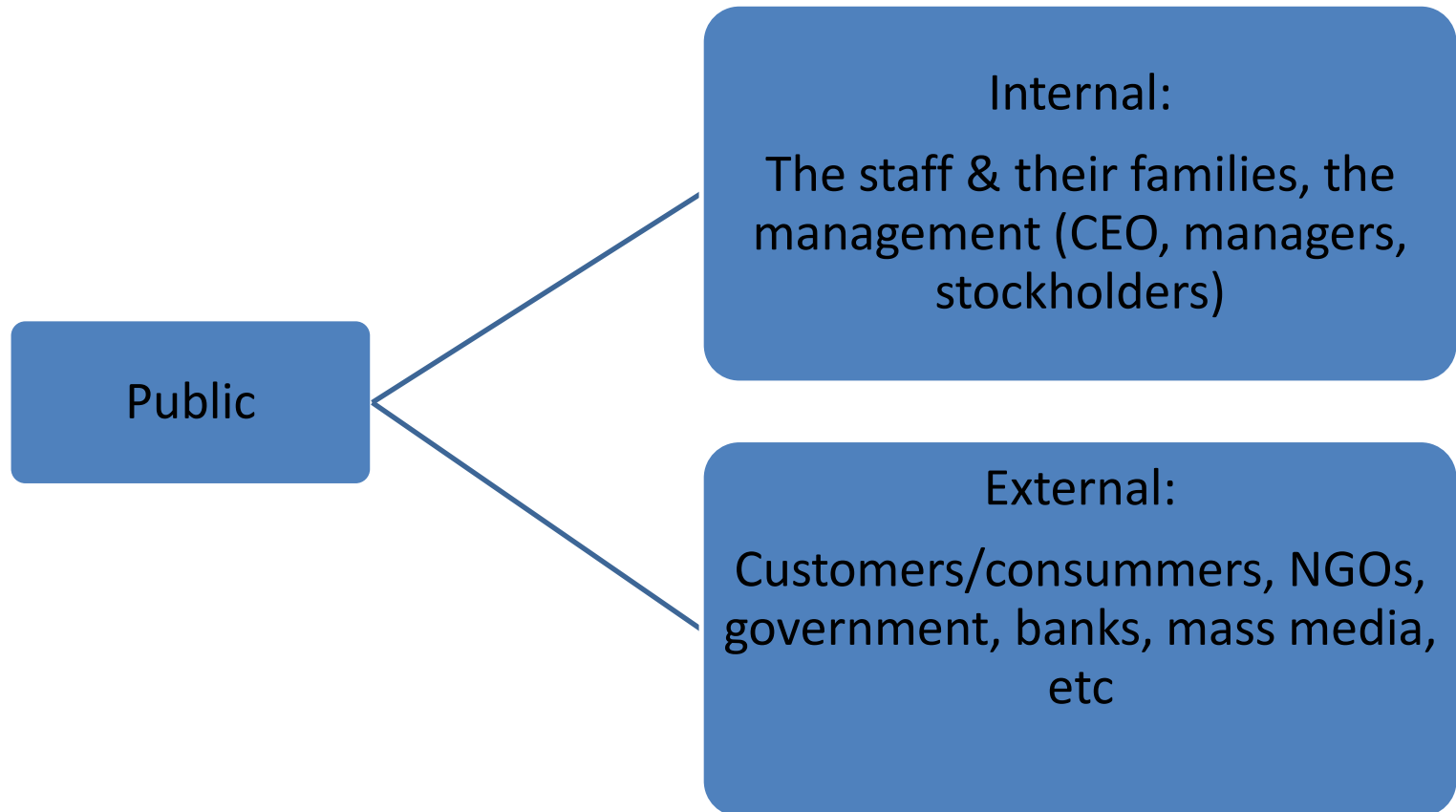
- Relates the amount invested in advertising to the product's share of market.
- Must understand share-of-mind.

All You Can Afford Method

- Allocates whatever is left over to advertising.
- Companies who use this don't value advertising very much.

Definitions of Public Relations

- **Public = (all) society ?**



PR TOOLS

- To conduct its work, PR has some tools:
 - **Publicity and media relations**: press release, press conference, press tours, press party, media gathering.
 - **Special events**: open house/ company visit, fund-raising, trade-shows, award ceremonies, contests, seminars.
 - **Corporate advertising**: ads to support marketing.
 - **Newsletters**: means of two-way communication with the publics.
 - **Speaker bureau** (one door system of information)
 - **Lobbying**: negotiation with government and NGOs.
 - **Charitable contributions**
 - **Thank you notes and letters**
 - **Audio-visual instrument**
 - **Sponsorships**
 - **Letters of denial**