MODULE 1
Distribution And Channel Management

Agenda

• Background
• Marketing Channels
• Functions of Marketing Channels
• Types of Channels
• Factors affecting Channel Decisions
• Channel Conflict
• Summary

Background

• Distribution is a key external resource
• Logistics, Distribution and Channels Management are the less visible side of marketing
• the less “sexier” side when compared to something like advertising
• Nevertheless, it is as important, if not more
• India has millions of outlets
• Poor roads
• Distributing in Rural India is very, very hard
• Still, has to be done
• HLL is excellent at this
• The Post Office is good too
• SBI is very strong here
• Not so the PDS
• Plus the increase in malls and large stores is a very big change in the making
• It is also very difficult
• imagine you are Nike
• you produce your shoes in Indonesia/China
• you have to make your product available in Russia, India, Latin America, Europe, USA - in short, the whole world
• It is thus mindbogglingly complex
• More so in India, why?

Marketing Channels

• The Network of partners in the value chain that cooperate to bring products from producers to ultimate consumers
• Imagine Nike again
• All those who help in bringing shoes to the consumer from the factories (or is it sweatshops ?) in Indonesia are the channel members (except transporters)
• These include wholesalers, retailers, agents, brokers etc
• They are called intermediaries, middlemen, dealers, resellers or distributors
• However, the prevailing view is that channel members are more than just middlemen
• They are comrade-in-arms
• They are marketer’s first customers and partners; they add value to the marketer’s offer
• What are some functions that channel members perform?
Functions of Channel Members

Making Products Available

- *This is the most obvious and first function*
- *Retailers are critical here*
- *As also wholesalers in rural markets*
- *Retailers are a great source of information*
- *Why is this so?*
- *What makes the retailer good here?*
- *The retailer is closest to the consumer*
- *Hence knows more than you, the marketer*
- *Which models are liked? Which models are moving fast, slow and so on?*
- *Also very useful for certain institutional purchases like hotels for tiles*
- *Promotion*
- *Channel members also indulge in sales promotion and advertising*
- *Deals, flyers, cooperative advertising Transfer of Title*
- *If ITC sells 100 packets of Aashirwad aata to Nilgiris, the title is now transferred*
- *Ownership is transferred*

Physical possession

- *Thus “your” goods are now possessed by Nilgiris*
- *Imagine what would happen if retailers did not take physical possession?*

Financing

- *Now that Nilgiris owns it, they need to finance the inventory*
- *Inventory always has carrying costs*
Risk Taking

- Now the onus is on Nilgiris to sell
- What if they are unable to sell?
- They are stuck with the product
- Hence perishables always carry a large margin e.g. vegetables
- What are some other risks?
- What if a kid breaks some bottles of jam in the store and nobody notices?
- What if there is a sudden cyclone and no one shops?
- What about loss due to pilferage and theft?
- This is a very big problem internationally since people get a kick out of this
- Hence, Walmart says “RFID or else, bye”
- Hence, several risks are assumed and you need to be thankful

Negotiation

- When does the retailer help here?
- In case of institutional purchases again
- Think of the hotel-tile example
- Repeated follow-up and negotiation is done here by the retailer

Value-Added Services

- Like servicing cars, bikes
- Like home delivery
- Important in a country like India
- Thus, several functions are performed by the channel member
- Hence, more than merely a “dealer”
- Hence, relationship marketing is very important
• Maintaining a good relationship is therefore highly important

• Especially for the value-added services

Types Of Channel Members

Agents/Brokers
• Channel partners that match marketers with wholesalers or in organization markets, with customers
• They are very important for international marketing, for exports
• Think of the success of Ebay, Placement Consultants, Online dating/Matrimonial sites
• In a way, all are brokers

Wholesalers
• A wholesaler is someone who primarily sells to other retailers
• Also may retail on own
• Typically, buys in bulk
• Very important in rural India
• Companies think of him a necessary evil

Retailer
• The most visible face of the distribution system
• India has the largest number of retailers in the world
• Hence, the reluctance of the Govt in allowing FDI here – fear of unemployment

Value-added reseller
• channel partners that buy products from marketers, add value by modifying or enhancing value, then reselling them
• Example would be?
Types of Channel Members

- Vehicle dealer adds several accessories
- Used car dealers make the car new once more

Four Channels Through which marketers can reach customers

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Some Other Forms

- **For Example, Multilevel Marketing** - this is followed by companies like Amway, Tupperware
- Here, Amway sells to independent distributors, who sell to still others and so on
- There is a sort of a “chain effect”
- Marketers are free to use more than one channel, they can use multiple forms of channels
- This is called Dual Distribution or Hybrid Distribution
- this involves the use of more than type of channel to sell to different customer segments
- the furniture industry
• think of Michelin selling tires to Ford and to you - different channels

• Sometimes, even to the same types of customers, different channels are used

• for example, Coke is available in stores, movie theaters, video rentals and through vending machines

• Then there are Strategic Channel Alliances

• The use of another marketer’s channel arrangement to reach end customers

• In the International market, this is common

• Spic Fine Chemicals used Union Carbide’s

Types of Distribution

• Exclusive Distribution

• a channel design through which products are marketed through a few carefully selected partners

• luxury products, premium brands

• Armani suits, Louis Vutton,

• the idea is create exclusivity

• if it is available everywhere, what is so exclusive about your product?

• Factors Affecting Channel Decisions

• What are some factors affecting channel decisions like

• What type of channels do we have? Online or offline?

• A retailer only? A wholesaler, then retailer and so on? Channel length?

• What affects these decisions? What are the criteria influencing these decisions?
Type of Product

- *industrial products will have a different type of distribution from a consumer product*
- *a consumer durable will have a different type of distribution from an FMCG product*
- *product positioning too will affect type of channel*
- *premium products will have a shorter channel*

Type of Customer

- *the same product when sold to an end or organizational customer will have different channels*
- *for instance, computers will be sold direct to organizations but through resellers to end customers*

Market Environment

- *While in Rome, do what the Romans do*
- *do what is the industry norm*
- *if books are sold through exclusive book stores, do the same*
- *however, this also gives an opportunity to differentiate yourself*
- *Amazon.com going online*
- *Level of risk involved in high, hindsight is always 20/20*

Internal Considerations

- *do I have enough money to add another channel member ?*
- *is it compatible with my other businesses ?*
- *will any change cause more problems than solutions ?*
- *for example, IBM, Compaq threatened by Dell*
• *Is it compatible with my business model e.g. Dell in China*
  
  *these internal considerations have a bearing on type of channel*

### Legal Considerations

• *a manufacturer cannot insist that they sell their own products only (unless in case of a franchisee)*
• *a manufacturer cannot tie the sale of certain goods to certain others*
• *“you buy 100 crates of Vanilla Coke, if you want 500 crates of Coke”*
• *I am sure, though, that this is happening*

### Cost and Profit Considerations

• *a low profit margin, high volume company will have many channel members*
• *a high profit margin, low volume member will have only a few members*

### Channel Conflict

• *This is defined as tension/clashes between channel members as a result of perceived unfairness*
• *vertical conflict arises when there is a clash of interests between members at 2 different levels (like wholesaler and retailer)*
• *horizontal conflict is between members at the same level - Retailer A Vs. Retailer B*
• *conflict can be caused by unfair manufacturer policies, a few “rotten” apples, partisanship etc*
• *conflict can be potentially dangerous and can snowball*
• *McDonald’s franchisees for instance; if care is not taken, the grumbles might become a roar*
• *however, a little conflict is good*
• *manufacturers must be fair*
Summary

- Distribution is highly important
- Especially in consumer products
- More so in countries such as ours
- Managing channels is part of a salesperson’s job
- Conflict must never be allowed to get out of hand