

Marketing

Second SA Edition
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**Chapter 10:
Marketing Channels and
the Role of Intermediaries**

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Introduction

- Products must be brought to within reach of consumers
- Products “flow” from producer to buyer via series of independent but dependent participants
- Physical distribution: logistics
- Associated with:
 - change of ownership and risk
 - financing and payment
 - communication

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Needs Filled by Marketing Channels

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Channel Functions

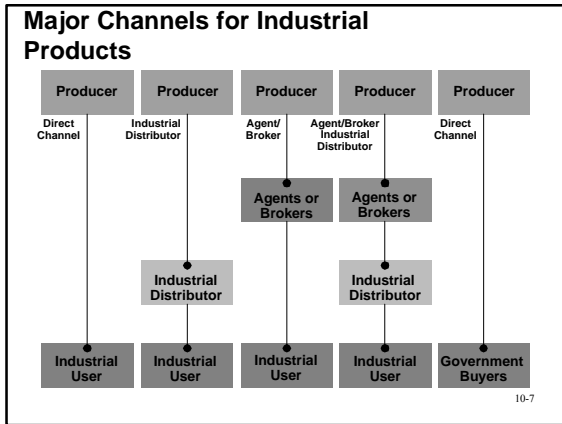
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Essential Channel Functions

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Marketing Channels for Consumer Products

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Alternative Marketing Channel Arrangements

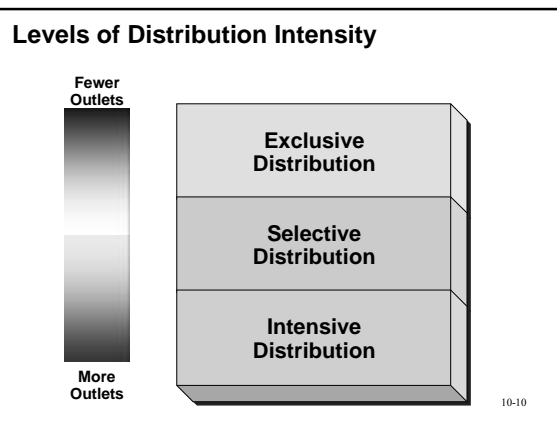
- Multiple channels
- Non-traditional channels
- Strategic channel alliances
- Reverse channels

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Factors Affecting Channel Choice

- Market Factors
- Product Factors
- Producer Factors

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Potential Channel Conflict

- Members of a channel of distribution often pursue conflicting objectives – see Table 10.3
 - Example: manufacturer wants an exclusive image for brand, retailer wants low price to stimulate sales
- Some deal with channel conflict using:
 - forward integration
 - backward integration

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Setting the Level of Physical Distribution Service

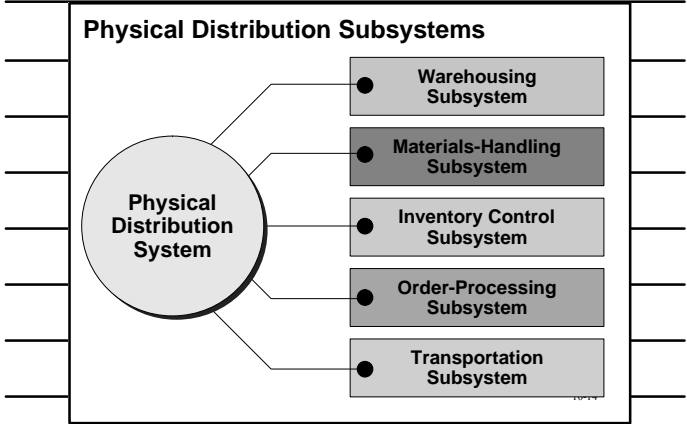
Product Availability	How many orders are reliably, completely filled?
Timelines in Order Processing and Delivery	How long is a product "in the pipeline"?
Acceptable Distribution Quality	Are the correct items shipped, in the right quantities? How many were damaged in transit?

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Physical Distribution and Logistics

- Physical distribution: stocking and transporting of raw materials, parts and final products
- Logistics is a broader concept to include procurement – buying of raw materials and component parts

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Just-In-Time Inventory Management

Benefits of JIT	Risks of JIT
Reduced inventory levels	Too rapid implementation
Shorter lead times	Cutting inventory only
Improved supplier relations	Increased delivery costs
Lower production and storeroom costs	"Supplier shock"
Better quality supplies	Employee stress
Less paperwork	Potential bottlenecks caused by supplier delays

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Modes of Distribution

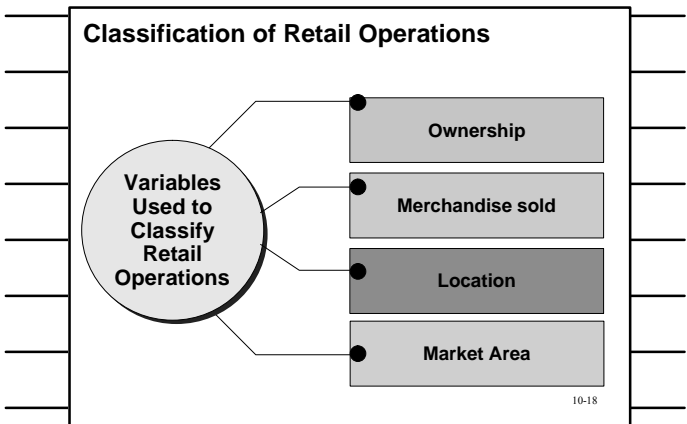
	Highest ●				● Lowest
Relative Cost	Air	Truck	Rail	Pipe	Water
Transit Time	Water	Rail	Pipe	Truck	Air
Reliability	Pipe	Truck	Rail	Air	Water
Capability	Water	Rail	Truck	Air	Pipe
Accessibility	Truck	Rail	Air	Water	Pipe
Traceability	Air	Truck	Rail	Water	Pipe

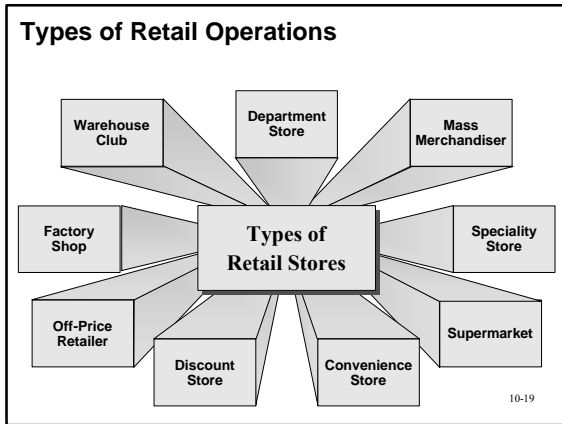
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Retail and Warehousing Intermediaries

- Retailing – selling to final consumers for consumption
- Wholesalers – intermediaries between manufacturers and final consumers
- Both of them:
 - Overcome the discrepancy of quantity
 - Overcome the discrepancy of assortment
 - Overcome spatial separation
 - Overcome the separation in value
 - Create information utility
 - Create possession utility

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Franchising

- Salient features:
 - the functions and responsibilities of both parties
 - objective: enhance the effectiveness of the whole system
 - the promotion of a consistent image
 - mutual support
 - financial arrangements
 - the reduction of risk

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Types of Franchises

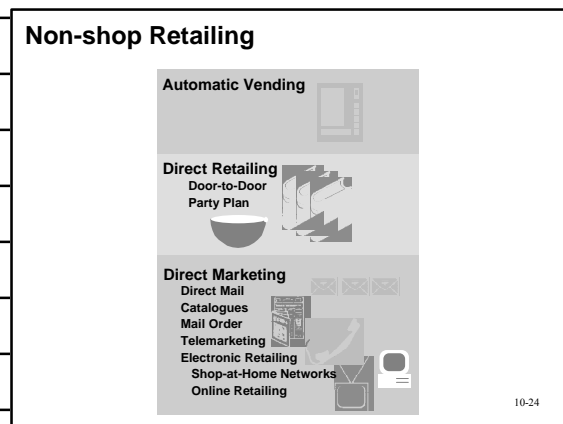
- Original trademark holder → retailer
- Manufacturer → retailer
- Manufacturer → wholesaler
- Wholesaler → retailer

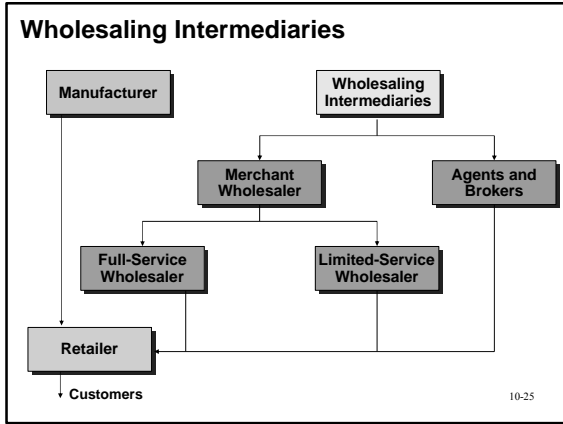
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Advantages of Franchising

- Chance for an entrepreneur to start a business with relatively little capital
- The product/service is already well established in the market
- Franchisor provides technical support, training and managerial assistance
- Consistent quality standards throughout the system
- Bulk purchasing benefits

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Factors Suggesting Type of Wholesaler to Use

Factor	Merchant wholesalers	Agents or brokers
Nature of product	Standard	Non-standard, custom
Technicality of product	Complex	Simple
Product's gross margin	High	Low
Frequency of ordering	Frequent	Infrequent
Time between order and receipt of shipment	Buyer desires shorter lead time	Buyer satisfied with long lead time
Number of customers	Many	Few
Concentration of customers	Dispersed	Concentrated

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