

Chapter 10

Place and Development of Channel Systems

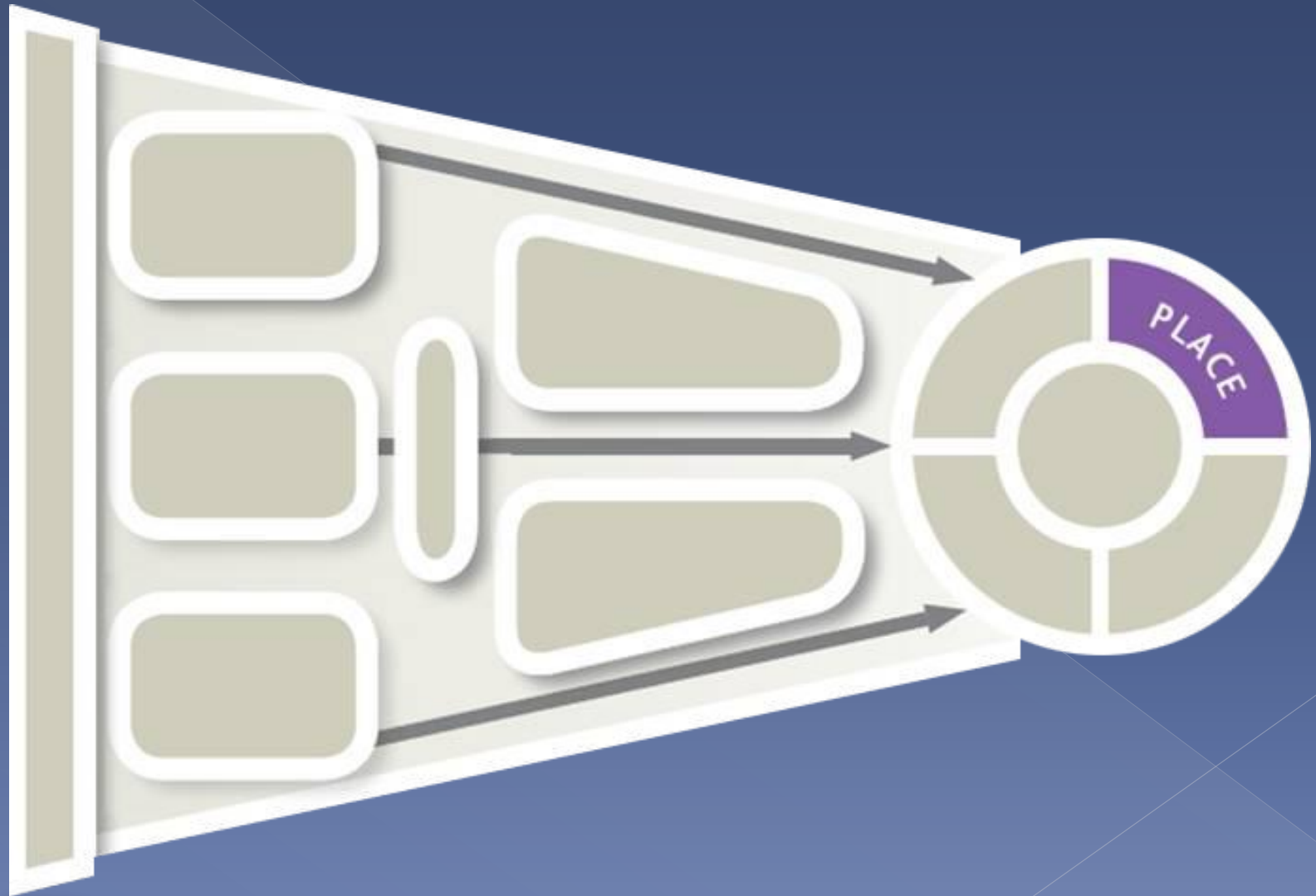
At the end of this presentation, you should be able to:

1. Understand what product classes suggest about Place objectives.
2. Understand why some firms use direct channel systems while others work with intermediaries and indirect systems.
3. Understand how and why marketing specialists develop to make channel systems more effective.
4. Understand how to develop cooperative relationships and avoid conflict in channel systems.
5. Know how channel members in vertical marketing systems shift and share functions to meet customer needs.

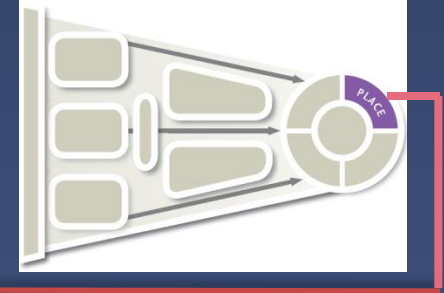
At the end of this presentation, you should be able to:

6. Understand the differences between intensive, selective, and exclusive distribution.
7. Know how multichannel distribution and reverse channels operate.
8. Know the main approaches firms use to reach customers in international markets.
9. Understand important new terms.

Marketing Strategy Planning Process



Marketing Strategy Planning Decisions for Place (Exhibit 10-1)



**CH 10: Place and
Development of
Channel Systems**

**CH 11: Distribution
Customer Service &
Logistics**

**CH 12: Retailers,
Wholesalers & Their
Strategy Planning**

**Place
objectives**

**Direct vs.
indirect**

**Channel
specialists**

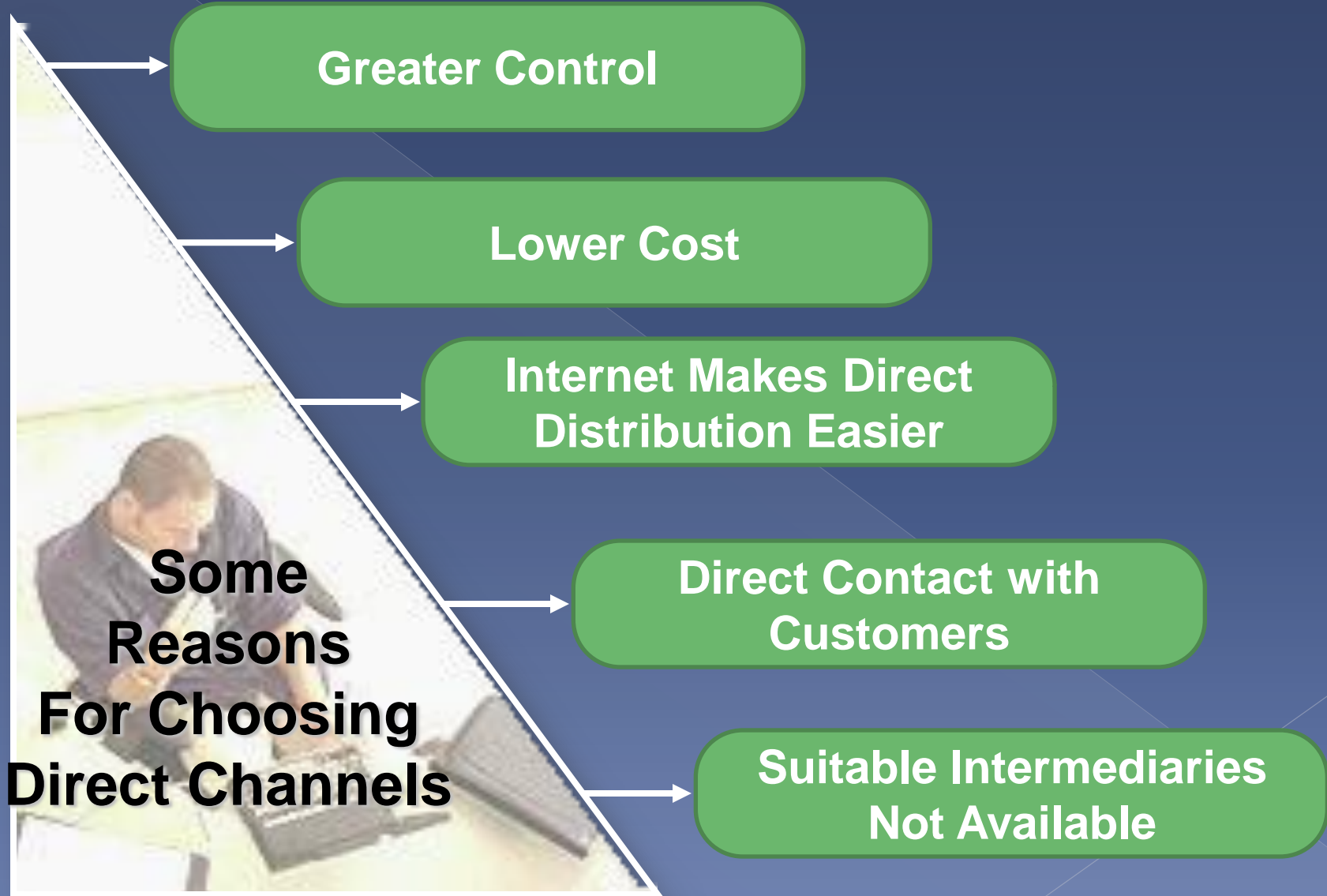
**Channel
relationships**

**Market
exposure**

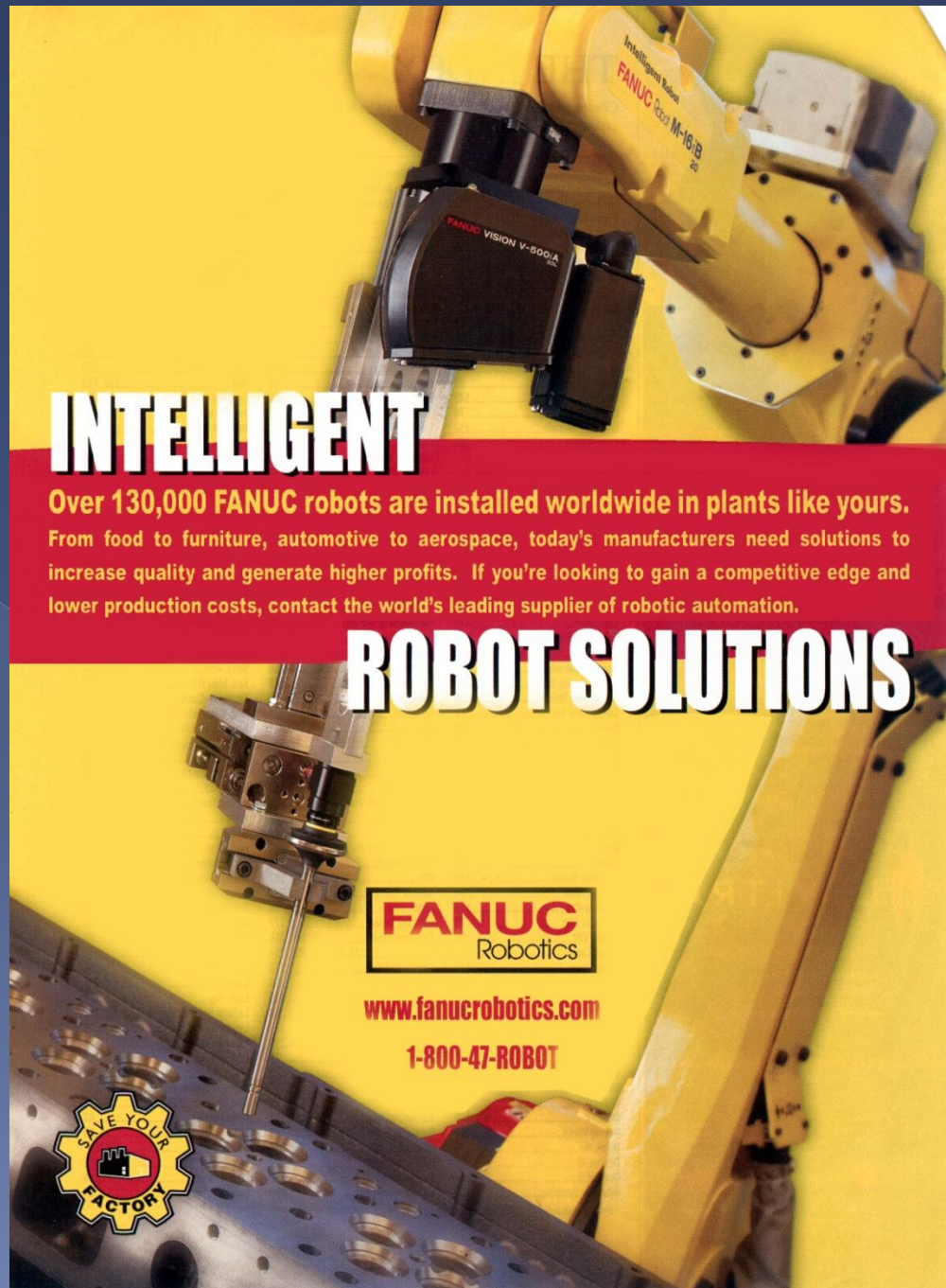
Place Decisions Are Guided by “Ideal” Place Objectives



Channel System May Be Direct or Indirect



Direct Channels Are Common with Business Customers and Services



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When Indirect Channels Are Best

Did You Ever Have to Make Up Your Mind?



For more information, please visit www.hearttruth.gov

Pick up one or pick up all of our delicious, healthful organic teas in unique and refreshing flavors. They're good for you and good for the earth, so don't leave any behind! Just a few of over 90 tempting tastes from Celestial Seasonings®.

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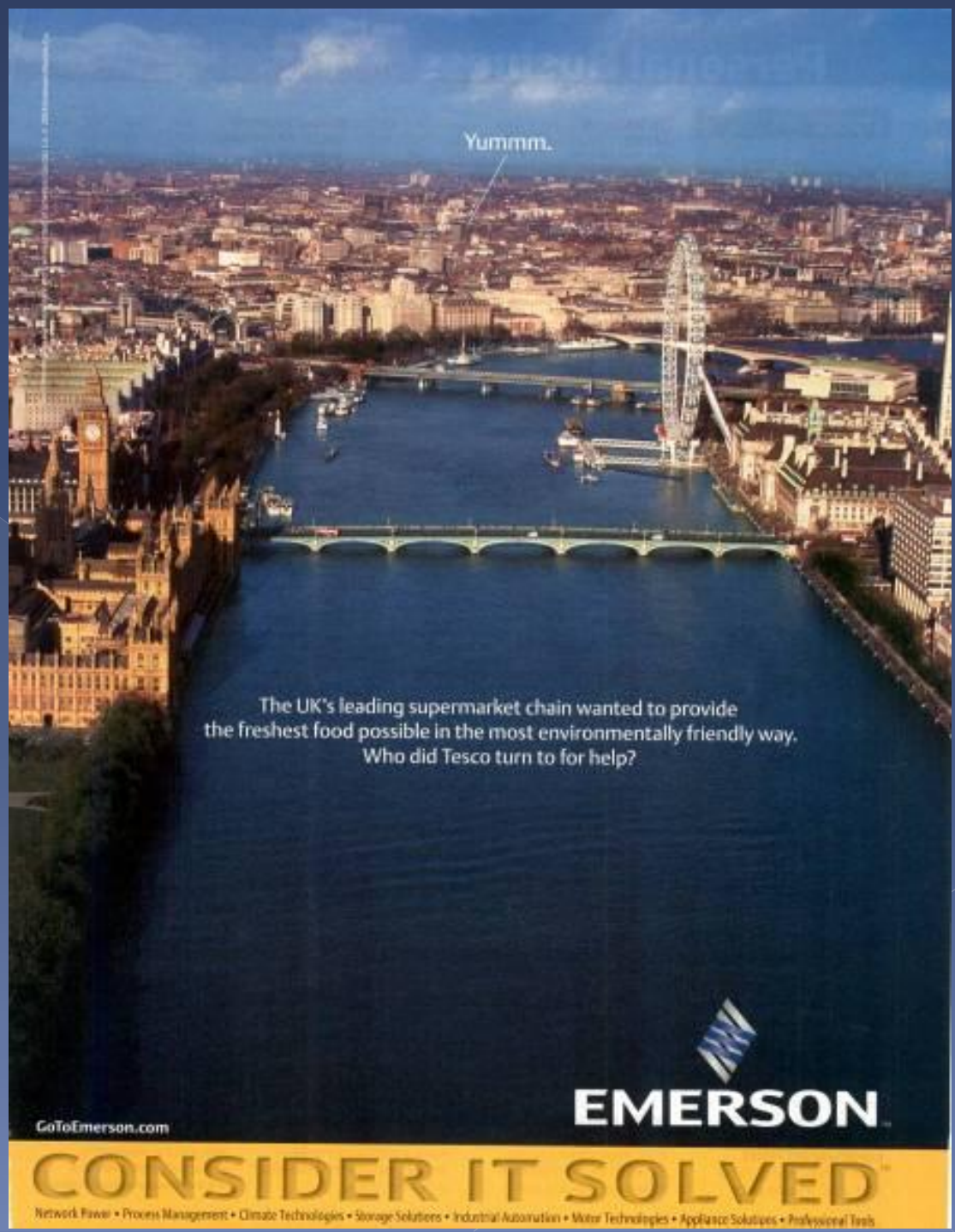
Organic Tea

Checking Your Knowledge

Andrea's Kitchen is a catering business that operates by means of its own website. Customers order party platters, pastries, and other foods that the company makes to order. The items are then vacuum-packed in dry ice and shipped to the customer's address via overnight delivery. Andrea's Kitchen is part of a(n):

- A. indirect channel.
- B. dual channel.
- C. intermediary channel.
- D. direct channel.
- E. traditional channel.

Channel Specialists May Reduce Discrepancies and Separations




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Yummm.

The UK's leading supermarket chain wanted to provide the freshest food possible in the most environmentally friendly way. Who did Tesco turn to for help?

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CONSIDER IT SOLVED™
Network Power • Process Management • Climate Technologies • Storage Solutions • Industrial Automation • Motor Technologies • Appliance Solutions • Professional Tools

A Discrepancy of Assortment



A Discrepancy of Assortment



Campbell's

Campbell's
Healthy Request
Hearty Chicken Rice
with Hearty & Wild Rice

Campbell's
CHUNKY
Soup That Keeps Going & Going
Grilled Sirloin Steak
with Hearty Vegetables

Campbell's
SELECT
READY TO SERVE
Grilled Chicken with
Sautéed Tomatoes & Mushrooms

Campbell's
READY TO SERVE
CLASSIC CHICKEN NOODLE
SOUP

**IF IT WERE ANY
EASIER
IT WOULD HEAT ITSELF**

**EASY OPEN
POP TOP**

The great taste of Campbell's is now in an easy-open pop top.

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Channel Specialists Adjust Discrepancies with Regrouping Activities

Accumulating

Bulk-Breaking

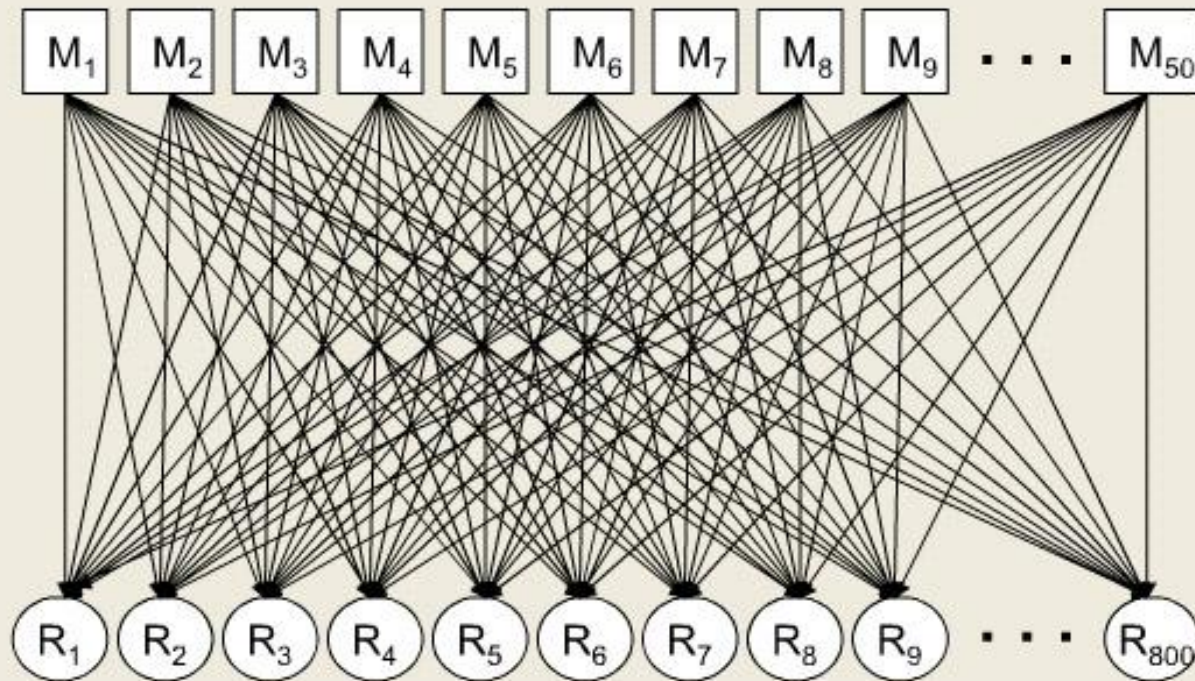


Assorting

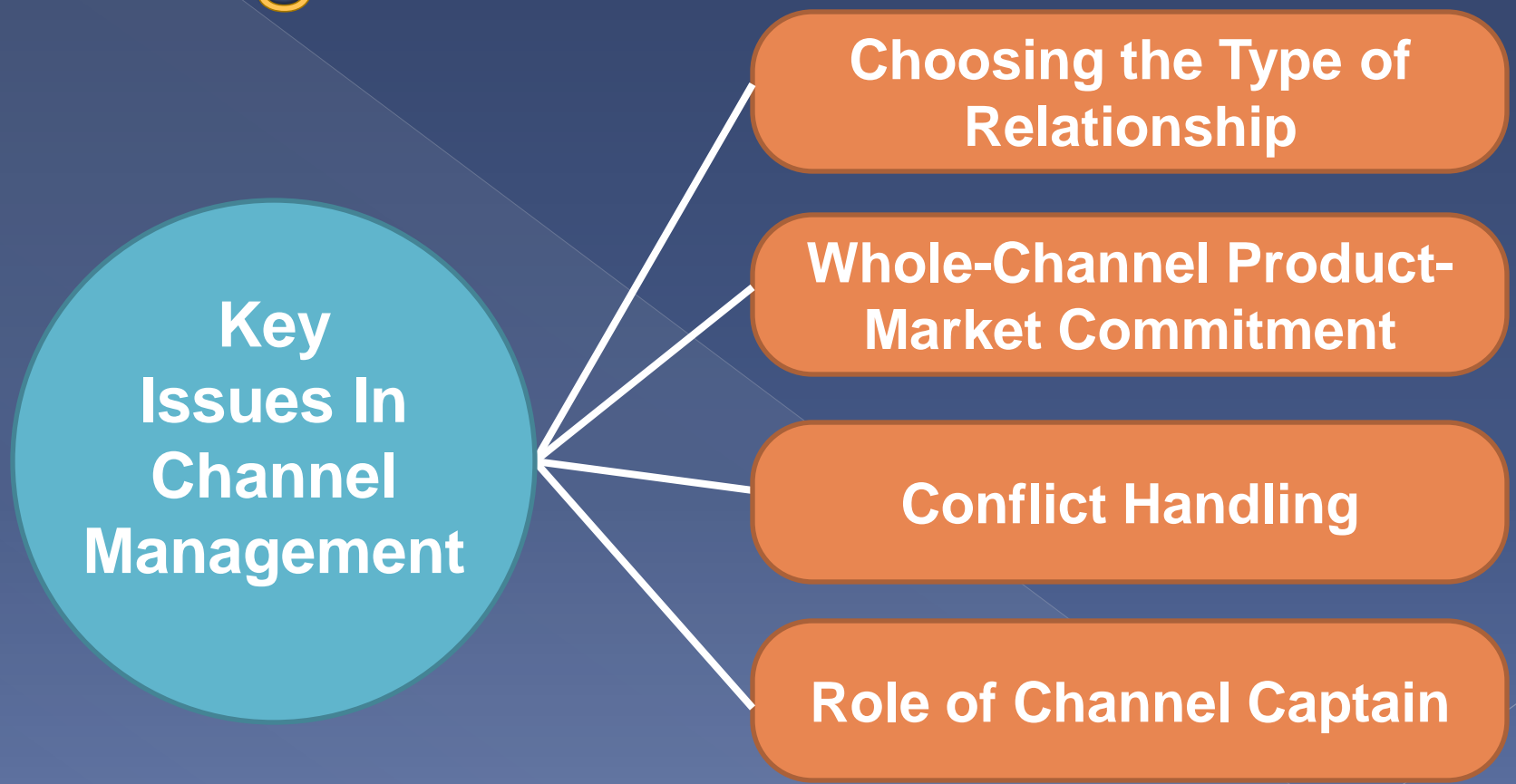
Sorting

Interactive Exercise: Channel Efficiency

Assume a channel system is composed of 50 manufacturers and 800 retailers. Each manufacturer distributes to every retailer, as shown below:



Channel Relationship Must Be Managed



Producers or Intermediaries May Be Channel Captains (Exhibit 10-2)

A. How strategy decisions are handled in a producer-led channel

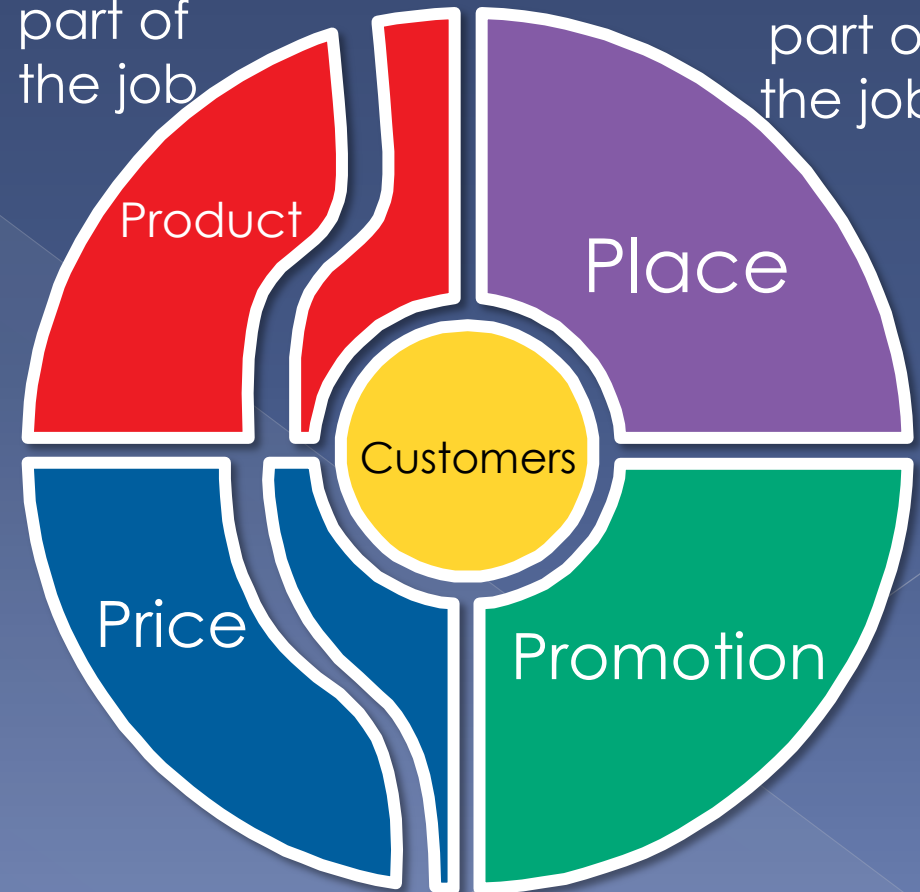
Producer's part of the job



Intermediary's part of the job

B. How strategy decisions are handled in a retailer-led channel

Producer's part of the job



Retailer's part of the job

Vertical Marketing Systems Focus on Final Customers (Exhibit 10-3)

Characteristics	Type of channel			
	Traditional	Vertical marketing systems		
		Administered	Contractual	Corporate
<i>Amount of cooperation</i>	Little or none	Some to good	Fairly good to good	Complete
Control maintained by	None	Economic power and leadership	Contracts	One company ownership
Examples	Typical "independents"	General Electric	McDonald's	Florsheim

Channel Relationships

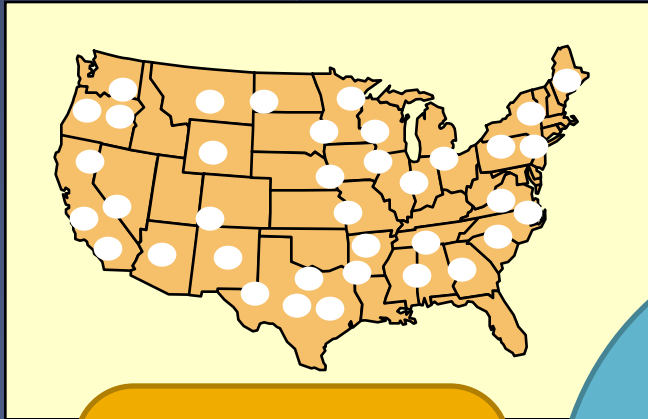


Checking Your Knowledge

Dave Tindall runs “Maid to Perfection,” a residential and business cleaning service. He paid a fee to be part of the “Maid to Perfection” system of local operators. The written agreement gives him the right to use the company name and operations manual, and the agreement promises Dave that there will not be another “Maid to Perfection” operator in his immediate area. He operates as a semi-independent entrepreneur, but is still part of a national organization. Dave is part of a(n):

- A. traditional channel.
- B. contractual channel.
- C. corporate channel.
- D. administered channel.
- E. dual channel.

The Best Channel System Should Achieve Ideal Market Exposure

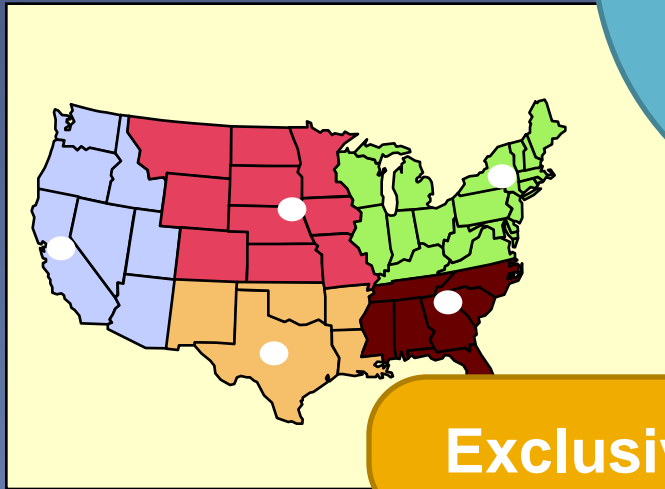


Intensive



Selective

**Market
Exposure
Strategies**



Exclusive

• = number of
outlets

Intensive Distribution



Interactive Exercise: Ideal Market Exposure

Match the following products to the distribution strategy used by each

**Intensive
Strategy**

**Selective
Strategy**

**Exclusive
Strategy**

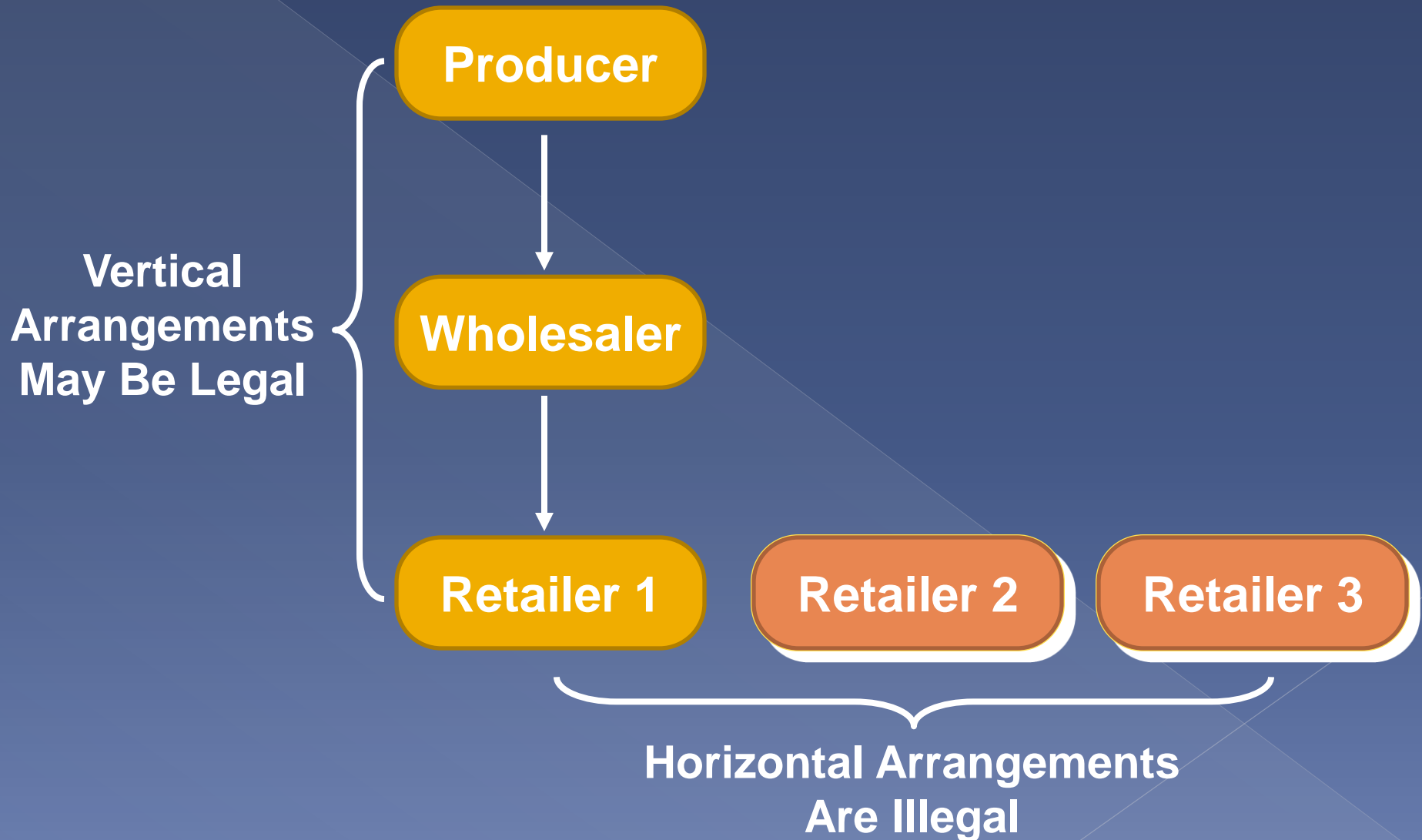


Checking Your Knowledge

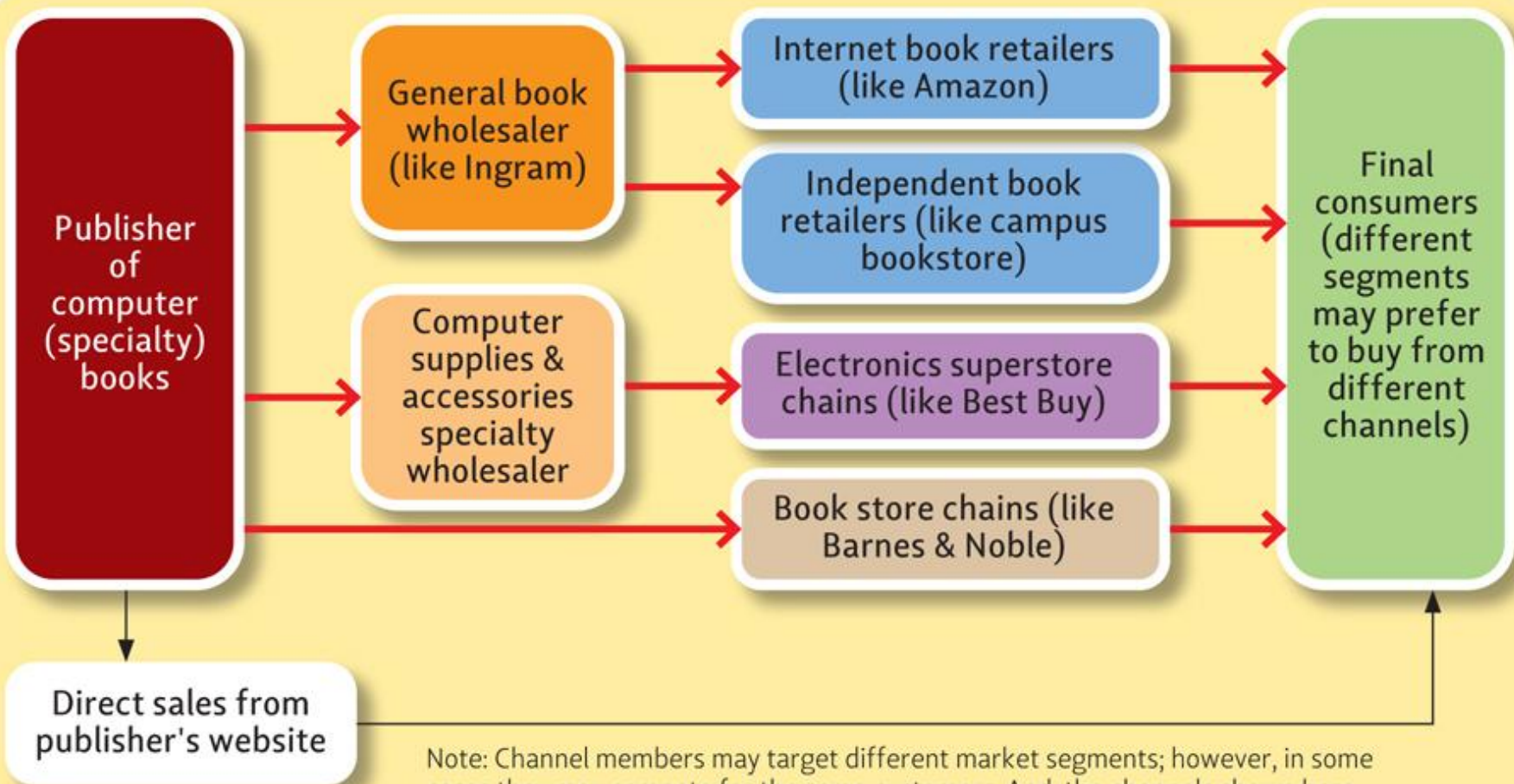
Chocolate Dreams is a manufacturer of expensive, high-quality, hand-made “old style” candies that are sold through fine department stores and certain bookstores and fine gift shops. The ideal market exposure for products manufactured by Chocolate Dreams is:

- A. intensive.
- B. comprehensive.
- C. exclusive.
- D. extensive.
- E. selective.

Limiting Market Exposure



Channel Systems Can Be Complex (Exhibit 10-4)



Note: Channel members may target different market segments; however, in some cases they may compete for the same customers. And, the channels shown here may also compete with channels for similar books by another publisher.

Key Elements of Distribution Strategy



Entering International Markets (Exhibit 10-5)

Exporting

Licensing

Management
Contracting

Joint
Venture

Direct
Investment

Generally increasing investment, risk, and control of marketing



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Key Terms

1. place
2. channel of distribution
3. direct marketing
4. discrepancy of quantity
5. discrepancy of assortment
6. regrouping activities
7. accumulating
8. bulk-breaking
9. sorting
10. assorting
11. traditional channel systems
12. channel captain
13. vertical marketing systems
14. corporate channel systems
15. vertical integration
16. administered channel systems
17. contractual channel systems

Key Terms

- 18. ideal market exposure
- 19. intensive distribution
- 20. selective distribution
- 21. exclusive distribution
- 22. multichannel distribution
- 23. reverse channels
- 24. exporting
- 25. licensing
- 26. management contracting
- 27. joint venture
- 28. direct investment