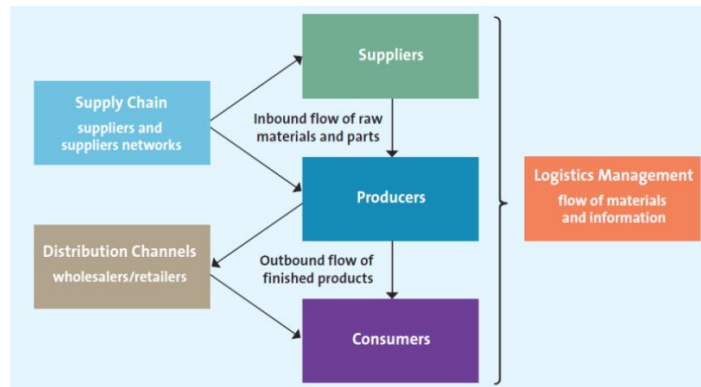


November 16, 2017

Chapter 12: Distribution Channels

Distribution Components

- Suppliers
- Producers
 - They make the it into finished goods
- Consumers



The Importance of Distribution

- The third P is place which includes all activities required to get the right product to the right customer when that customer wants it.
- Good distribution is critical to marketing success
- Royal Canadian Mint released world's first coloured circulation coin through Tim Hortons (due to huge reach and speed to distribute coins)
- Distribution channels, supply chains, and logistics are related
 - Distribution channel: institution that transfer the ownership of and move goods from the point of production to the point of consumption.
 - The distribution channel Consist of institutions
 - Supply chain management: techniques firms employ to efficiently and effectively integrate their suppliers, manufacturers, warehouses, stores and transportation intermediaries into a seamless value chain in which product is produced and distributed in the right quantities to the right location and right stores.
 - Logistics management: the integration of two or more activities for purpose of planning, implementing and controlling the efficient flow of raw materials in-process inventory, and finished goods from the point of origin to the point of consumption.
 - Refers to the activities among and within institutions, focus on raw material and finished goods
- Key: Information flow, coordination, mutual trust, strategic relationships, commitment
 - Manufactures will know suppliers sales so that they will always know when to send a new shipment so that it never runs out.

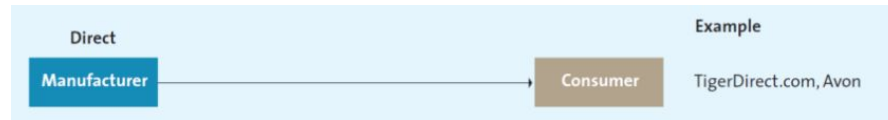
Designing Distribution Channels

For new firms entering the market they don't get to create the best distribution channel because they are too new and do not have an established credit and suppliers are not sure that they can repay.

Manufacturers normally don't want to sell to new stores because it is possible that they don't have the shelf space big enough for their products.

- Channel Structure

- Direct Distribution



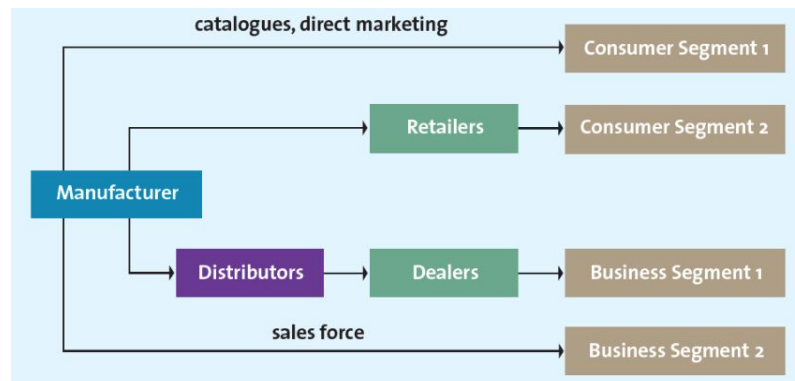
- Deals directly with the customer
- cut down on expenses of middle man, while others distribute directly to secure self space if they unable to pay high listing fees.
- E.g. appliance manufacturers know that consumers will want to compare different makes and models from variety of companies in a retail environment when purchasing a new fridge

- Indirect Distribution



- One or more intermediaries work with manufacturers to provide goods and services.
- E.g. Ford and Coca Cola use indirect distribution with dealers acting a the retailer
- Wholesalers are often used when companies do not buy in sufficient quantity to make it cost effective for a manufacturer to deal directly with a retailer.

- Multi Channel Distribution



- Combination of the two methods above
- E.g. In a big city Sony might sell directly via their own branded stores, while in smaller areas they will sell indirectly through retailers, it depends on how they can reach the most amount of people.
- Use of catalogues

- Major influences: Customer expectations and channel members characteristics

- If customers expect to buy your product in a certain way, you better make it happen so that you reach your market.

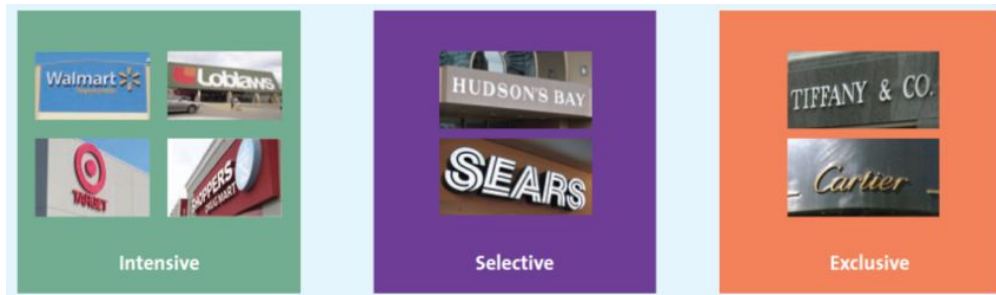
Push vs. Pull Distribution Strategies

- **Push Marketing Strategy:** Designed to increase demand by focusing on wholesalers, distribution or salespeople, who push the product to consumers via distribution channels.
 - Paying listing fees to get the best shelf space. Listing fees will determine where the product will be placed, top or bottom shelf. Stores get manufacturers to pay this price to cover their own cost.
 - Some companies don't even need to pay listing fees, stores just stock popular items because they know consumers will buy them.
- **Pull Marketing Strategy:** designed to get consumers to pull the product into the supply chain by demanding retailers carry it.
 - Consumers who see TV commercials or print online coupons regarding a new product may approach retailers and request that they stock these products
 - E.g. Martin's Family Fruit Farm came up with a new product, apple crisps. But they needed to prove to stores that there will be a demand for it. Working with BrandFX they distributed samples to gyms, daycares, the pull strategy reached health-conscious moms and paved the way for distribution agreements with Loblaws.

Distribution Intensity

Refers to the number of channel members to use at each level of supply chain. Product characteristics drive supply chain structure, intermediate mass merchandise products use intensive distribution, whereas luxury goods employ exclusive distribution.

- E.g. Walmart and Esso wanted to carry M&M Meat Shops to expand the company's distribution intensity, but in the end chose not to move forward because it would hurt the brand. All companies were focused on a different brand (affordable vs. high quality)



- **Intensive:** everywhere, maximize reach
 - E.g. Cigarettes, package goods are mostly available everywhere
 - Intensive strategy is designed to get products into as many outside outlets as possible.
- **Exclusive:** even fewer locations
 - E.g. Rolex only in high-end jewelry stores, Nespresso opened their own store to distribute
 - Granting exclusive geographic territories to one or very few retail customers so no other customers in the territory can sell a particular brand.
 - This can benefit manufacturers b/c they can ensure that the most appropriate customers represent their products.
 - In cases of limited supply or when a firm is just starting out, providing an exclusive territory to one customer helps ensure enough inventory to offer an adequate selection

- Selective: few locations
 - E.g. Apple sells to selective retailers, CLR (the infomercial) they say available in selective stores.
 - Selective helps a seller maintain a particular image and control the flow of product into one area and maintain a particular brand image (selective to what type of store carries your product)

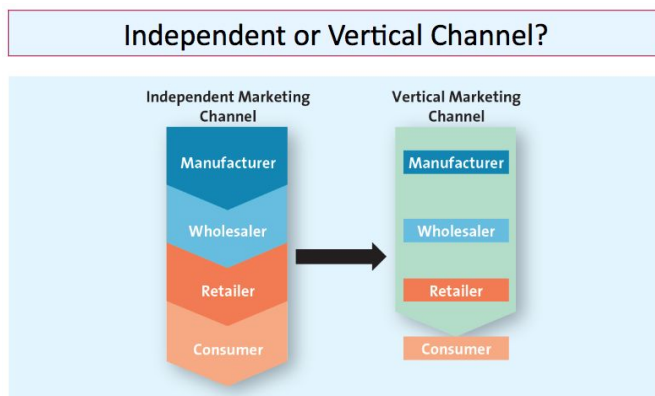
Distribution channels add value

- One intermediary will reduce the transaction, you will reduce errors, loss, time efficiency. You don't have to go to different manufacturer to buy all your needs, one place will give you everything.
- Without supply chain management, firms would face significant complications in getting their goods to consumers where they want them
- Eliminating a transaction between retailer and manufacturer makes it more efficient, it save time and money. It also becomes less expensive for the customer to purchase an item.

Functions Performed by Intermediaries

Transactional Function	
Buying	Purchase goods for resale to other intermediaries or consumers
Risk Taking	Own inventory that can become outdated
Promotion	Promote products to attract consumers
Selling	Transact with potential customers
Logistical Function	
Physical Distribution	Transport goods to point of purchase
Risk Taking	Maintain inventory and protect goods
Facilitating Function	
Gather Information	Share competitive intelligence about customers or other channel members
Financing	Extend credit and other financial services to consumers

Managing Channels Through Vertical Marketing Systems

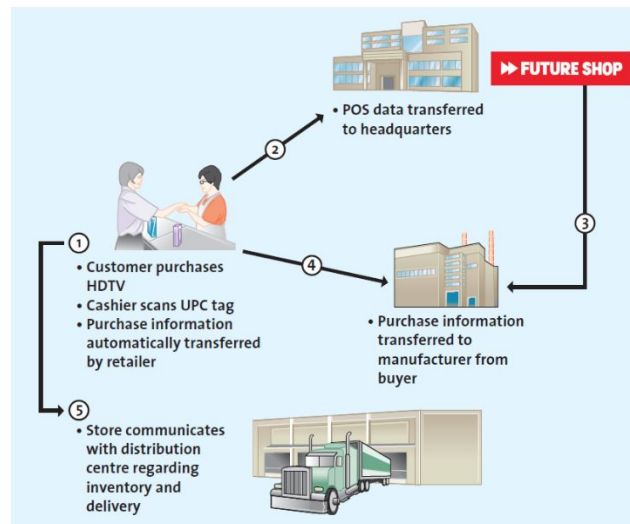


- Independent are all working for their own interest, while vertical are all working towards making things better for the consumers.
- Vertical → reduced cost everyone takes the hit but will sell more
- In order for this to work all members must work together
- **Channel Conflict:** results when supply chain members are not in agreement about their goals, roles or rewards.
- Control in distribution channels varies depending on the type of relationships. Most of the time the bigger company is the boss and calls the shots.

Types or Phases of Vertical Marketing Systems (VMS)

Three types or phases of vertical marketing systems

1. Administered: Who is the lead? The most powerful player calls the shots.
 - a. A supply chain system in which there is no common ownership and on contractual relationships, but the dominant channel member controls the channel relationship
 - b. E.g. Zara has control over Tessuto, it dictates what Tessuto makes, when it gets delivered, and Zara has a strong influence on price
2. Contractual: Join together through contracts to obtain economies of scale and co-ordination and to reduce conflict.
 - a. Franchises: you enter in a contract to own a store, you have to follow of their requirement
 - b. Franchising gives you reach, combines entrepreneur advantages of owning a business and the efficiency of a vertical marketing system. Advertising and product development is done efficiently.
 - c. E.g. Zara and Tessuto, their contract dictates how much Zara buys, at what price and if there are penalties if there is late delivery
3. Corporate: corporations own the distribution channels
 - a. Parent company has complete control and dictate the priorities and objectives of supply chain.
 - b. E.g. Zara manufacturers the more fashionable piece and less fashionable items will be given to other manufacturers to complete.
 - c. 5 interrelated activities emerge: design distribution channels, making information flow, managing relationships among partners, making merchandise flow, managing inventory.
4. Independent or conventional VMS



In some case, manufacturers also have access to this data warehouse. They communicate with retailers by using electronic data interchange & use supply chain systems known as vendor-managed inventory.

Logistics Management: making Information Flow

- Inbounds transportation
 - In-bound transportation involves the co-ordination of deliveries
 - Dispatcher: a person who is responsible to coordinate all the deliveries
 - If deliveries are missed or are not on time, costs will increase
- Receiving and checking
 - Arrival receipts, must be undamaged when they have been received
 - Radio Frequency Distribution Tags (RFID): included in every shipment so that manufacturers can track. Now you must have this technology if you want to do business with big corporations.
- Storing and cross-docking: traditionally merchandise is unloaded from trucks and placed on racks or shelves for storage. When merchandise is needed in the sotrea, workers will go and retrieve the items and make ready for shipment.
 - Cross-docking: vendors ship merchandise prepackaged in the quantity required for each store. Merchandise already contains price and theft tags. Items go straight into the staging area not into storage
 - Modern distribution is a combination of both of these methods
- Getting merchandise floor ready
 - Put on price tag, put clothing on hanger. So that when it arrives at the store the employees just have to put it on the sales
- Shipping merchandise to stores
 - A complex process for multi store chains
 - Sophisticated computer systems are used
- Just-in-time systems (JIT)
 - Benefits: Reduced lead time
 - Increased product availability and lower inventory investment
 - Manages to ensure goods get delivered only when they are needed, this is also known as quick response (QR) in retailing where merchandise is received just in time for sale when the customer wants it .
- Customer to store, store to buyer, buyer to manufacturer, store to manufacturer, store to distribution center.

Electronic Data Interchange

- Computer-to-computer exchange of business documents from retailers to vendors and back
- Advanced shipping notice
- Reduces cycle time
- Communication is improves
- Easy data analysis

- The growth of EDI system has allowed for advanced tracking of information. Each system can seamlessly integrate with others, which creates value for both customers and the firm.
 - Electronic Data Interchange (EDI): the computer-to-computer exchange of business documents from a retailer to a vendor and back
 - How does EDI create value? Since EDI facilitates information, it makes it easier for retailers to plan their deliveries (advance shipping notice) and plan their inventories. Other information is handled through EDI as well. The bottom line is the retailer has the merchandise the customer wants when he/she wants it, and in the quantities that are demanded.

Managing Supply Chain Through Strategic Relationships

- Strategic Relationship (partnering relationships): a supply chain relationship that the members are committed to maintaining long-term, investing in opportunities that are mutually beneficial; requires mutual trust, open communication, common goals and credible commitments
- Mutual trust: willing to share relevant ideas, clarify goals
- Open communication: share information, develop sales forecast together and coordinate deliveries.
- Common goals: share goals to give the relationship incentive to pool their strength together
 - Harry Rosen needs quick response from manufacturers, those manufacturers know that they need to keep Harry Rosen happy
- Credible commitment: tangible investment. Spending money to improve products or services provided to the consumers
 - Harry Rosen make financial commitment to its suppliers by helping them develop state of the art manufacturing facilities and computer systems.