MARTIN de TOURS SCHOOL OF MANAGEMENT
DEPARTMENT OF MARKETING

LESSON PLAN
MKT3823
MARKETING CHANNEL AND STRATEGY

LESSON 1: MARKETING CHANNEL CONCEPTS

Lesson Content: This lesson is projected to provide an illustrating how "place" as a key component of Strategic Marketing and will offer to the firm an advantage that cannot be easily copied by competition. In addition, channel management must first be "managed" by marketing department personnel with and to the same degree that marketing managers have in the past managed the promotion or price elements of the marketing mix. Key terms and definitions surrounding these concepts should be emphasized.

Objectives

This lesson introduces marketing channels as a competitive advantage to firms as other forms of traditional competitive differentiations such as price or promotion can be easily copied whereby channel management may not be so easily duplicated. This growing awareness of the importance of marketing channels, in the content of a firm's *overall* marketing objectives is deserving of emphasis and study.

Learning Objectives – Upon completion of this lesson, the students should be able to:

- Be aware of the growing importance of marketing channels in the larger content of overall marketing objectives.
- Understand the definition of the marketing channel from a *managerial* perspective.
- Show how marketing channels relate to the other strategic variables in the marketing mix.
- Understand the *flow* in and through the marketing channels and how they relate to channel management.
- Familiarize the concepts of channel structure and the ancillary structure and recognize their differences.

DURATION: 3.0 hours

Important topics

A) Growing Importance of Marketing Channels

Discuss: a **sustainable competitive advantage** that cannot be easily or quickly copied by competitors. In recent years, the finding of such an advantage is far more difficult using pricing, product, or promotion strategies.

Place or marketing channel strategy, does offer greater potential for a competitive advantage because *it is more difficult for competitors to copy.*

Example: Seven Eleven

Field project: would be to have the students call or visit Seven Eleven and talk about how their firm differentiates itself from their competition by use of channel strategy.

B) ***Growing Power of Distributors:*** *Economic power has shifted from the producers of goods to the distributors of goods.*

Examples: Home Depot, Toys 'R' Us, and other "category killers".
Activities: Spend some time with the students and get their perspective or opinions of what "**marketing channels"** mean to them.

C) ***Strategic alliances or partnerships***: Illustrate the importance of ***strategic alliances or partnerships*** between manufacturer and distributor as a source of sustainable competitive advantages.

Example: Sony Ericsson®
Strategic alliances or partnerships have specific advantages:

- Long-term viability
- Cannot be copied quickly
- Cannot be duplicated with price
- Cannot be substituted with a clever idea or short-term promotional program(s)

D) Distribution through Intermediaries: *Economic considerations are very important in determining what form intermediaries will have in their appearance in marketing channels. Two important concepts are introduced: specialization and division of labor and contractual efficiency.*

Ask students how grocery retailers interact between manufacturers and consumers to ensure that one consumer is able to buy one can or box of his/her favorite food item.

E) Channel Structure: *Multi-channel strategy is when the firm has chosen to reach its target consumer through more than one channel. With the advent of E-commerce, many firms have opted to use multi-channel strategies to reach their target market.*

Example of Polo® by Ralph Lauren Apparel.

Students should be able to give examples of other such multi-channel companies.

Example of channel structure for eBay.

F) Ancillary Structure: While so far we have included in the channel management only those participants who perform the negotiatory functions of channel management (buying, selling, transferring title, distribution, etc.). There are others that are not members of the channel structure that assist in the process. These other members will be defined as ancillary structure.

Examples of ancillary members include: banks, insurance agents, storage agents, contractors, repair shops, etc.

Discussion

1. Discuss three other views of channels management perspective are as follows:
   a. *Macro view*.
   b. *Societal view*
   c. *Behavioral Systems view*
2. Discuss the relationship between channel management and the other elements of the **marketing mix**.
3. Discuss channel management and **logistics management.**
4. Discuss in terms of the five flows in channel management.

5. Discuss contractual efficiency.
6. Discuss the initiation of mail-order and online marketing channels.

MATERIALS AND EQUIPMENT:

- Visual aids – PowerPoint slide show presentation
- Examples about marketing channels structures
- Journals

  Paul W. Steward and J. Frederich Dewhurst, *Does Distribution Cost Too Much?*

LESSON 2: THE CHANNEL PARTICIPANTS

Lesson Content: This lesson is to help the student understand the different components of the channel participants and what services/expertise each member adds to the "value" of the distribution process.

Objectives

This lesson defines the different and various types of channel participants and the distribution tasks they perform. The lesson defines wholesalers/retailers/brokers/manufacturing agents and other channel members, and discusses the why, how and implication of wholesale channel concentration and its affect on manufacturers and producers.

Learning Objectives – Upon completion of this lesson, the students should be able to:

- Familiarization of the classification of the major participants in the marketing channels.
- Understanding why producers and manufacturers find it necessary to shift many of the distribution tasks to intermediaries.
- Identify the major types of wholesalers.
- Awareness of the major trends in wholesaling structure, including patterns on size and concentration of wholesaling.
- Recognize the value of distribution tasks performed by the majority of wholesalers.
- Appreciate the complexity of the retail structure and familiarize the student with the different approaches used to classify retailers.
- Identify the major trends occurring in retail structure with regards to size and concentration.

DURATION: 3.0 hours

Important topics

An Overview of Channel Participants

The three basic divisions of the marketing channel are: producers and manufacturers, intermediaries and final users.

Producers and Manufacturers

Producers and manufacturers consist of firms that are involved in the extracting, growing, or making of products. For the needs of the customers to be satisfied

products must be made available to customers when, where and how they want them. Example: Crayola® crayons

Intermediaries

- Intermediaries: Are independent businesses that assist producers and manufacturers in the performance of negotiatory functions and other distribution tasks.

- Wholesalers: Consist of businesses that are engaged in selling goods for resale or business use to retail, industrial, commercial, institutional, professional, or agricultural firms, as well as to other wholesalers.

A) Types and Kinds of Wholesalers
Three major types of wholesalers as defined by the *Census of Wholesale Trade.* These are:

1. Merchant wholesalers
2. Agents, brokers, and commission merchants
3. Manufacturer's sales branches and offices

B) Structure and Trends in Wholesaling

C) Size and Concentration in Wholesaling

D) Distribution Tasks Performed by Merchant Wholesalers
Modern well-managed merchant wholesalers perform the following types of distribution tasks for producers and manufacturers:

1. Providing market coverage
2. Making sales contacts
3. Holding inventory
4. Processing orders
5. Gathering market information
6. Offering customer support

In addition to the above services, merchant wholesalers are equally well suited to perform the following distribution tasks for their customers:

1. Assuring product availability
2. Providing customer service
3. Extending credit and financial assistance
4. Offering assortment convenience
5. Breaking bulk
6. Helping customers with advice and technical support

An important point here is to add that there are "**limited function wholesalers**" who do not perform many or all of these tasks. Examples include, mail-order wholesalers, and cash-and-carry wholesalers.

Retail intermediaries

A) Kinds of Retailers

Example: Wal-Mart®.

B) Retailers' growing power in marketing channels

The power and influence of retailers in marketing channels have been growing mainly due to three major developments:

a) Increase in size and thus buying power
b) Application of advanced technologies
c) Use of modern marketing strategies

Exercise: students are asked to explore this new "threetailing" experience themselves by visiting a retailer, such as retailer's Web site, catalog and bricks and mortar store comparing prices, service levels and selection among these three channels.

Discuss more about relationship marketing *by emphasizing customer training and service to build long-term relationships.*

C) Retailers are especially suited to the following distribution tasks:

1. Offering manpower and physical facilities that enable producers/manufacturers and wholesalers to have many points of contact with consumers close to their places of residence
2. Providing personal selling, advertising, and display to aid in selling supplier's products
3. Interpreting consumer demand and relaying this information back through the channel
4. Dividing large quantities into consumer-sized lots, thereby providing economies for suppliers and convenience for consumers
5. Offering storage, so that suppliers can have widely dispersed inventories of their products at low cost and enabling consumers to have close access to the products of producers/manufacturers and wholesalers
6. Removing substantial risk from the producer/manufacturer by ordering and accepting delivery in advance of the season

Discussion: open up the class to a discussion on some retailers and ask the students to "sum up" the retailers' approach to the performance of their distribution tasks.

D) Facilitating agencies: Are business firms that assist in the performance of distribution tasks other than buying, selling, and transferring title.

Discussion

1. Production tasks and distribution tasks.
2. The basic classification include: (1) merchant wholesalers, (2) agents and brokers, and (3) manufacturer's sales branches.
3. Students should note at least the major patterns discussed in the text:
   - the small business nature of wholesaling
   - the number of wholesalers
   - wholesale sales
   - percentage of wholesale sales attributed to each of the three major classifications of wholesalers
   - average size of merchant wholesalers

- merger and acquisition activity
- economic concentration

4. Distribution tasks for which *wholesalers* are well suited include.
5. Distribution tasks for which *retailers* are especially well suited include.

MATERIALS AND EQUIPMENT:

- Visual aids – PowerPoint slide show presentation
- Case study of Amazon.com

ASSIGNMENTS:

Assign the students to observe various types of "category killer" retailer, a major supermarket chain, a store chain Tesco Lotus® or BIG C® and an independent retailer. Then, the students have to analyze the participants in that channel and the channels structure.

LESSON 3: BEHAVIORAL PROCESSES IN MARKETING CHANNELS

Lesson Content: This lesson discusses the behavioral processes of conflict, power, role, and communication in a marketing channel context. The emphasis of the chapter is on showing how these behavioral processes operate in the channel and on their importance to the channel manager in the development and management of the channel.

Objectives

Learning Objectives – Upon completion of this lesson, the students should be able to:

- The marketing channel can be viewed as a social system as well as an economic one.
- Behavioral processes, such as conflict, power, role, and communication are inherent behavioral dimensions in marketing channels.
- How conflict emerges in marketing channels.
- What are the major causes of channel conflict?
- Recognize the major issues involved in managing channel conflicts.
- Become familiar with the concept of power as it applies to the marketing channel.
- Be aware of the basic research finds concerning the use of power.
- Be alert to the concept and use of roles in marketing channels.
- Have an appreciation for how behavioral processes can distort the flow of communications in the marketing channels.

DURATION: 3.0 hours

Important topics

The Marketing Channel as a Social System

Conflict in the Marketing Channel

A) Conflict versus Competition

B) Causes of Channel Conflict

1. Role incongruities
2. Resource scarcities
3. Perceptual differences
4. Expectational differences
5. Decision domain disagreements
6. Goal incompatibilities

7. Communication difficulties

C) Channel Conflict and Channel Efficiency

1. Negative Effect – Reduced Efficiency
2. No Effect – Efficiency Remains Constant
3. Positive Effect – Efficiency Increased
4. Conflict and Channel Efficiency – General Curve

D) Managing Channel Conflict

1. Detect conflicts or potential conflicts
2. Appraise the possible effects of conflicts
3. Resolve channel conflict

Power in the Marketing Channel

1. Bases of Power for Channel Control

A) Reward
B) Coercive
C) Legitimate
D) Referent
E) Expert

2. Using Power in the Marketing Channel

A) Identifying the Available Power Bases
B) Selecting and Using Appropriate Power Bases

Role in the Marketing Channel

Discuss: channel managers can use the concept of role to formulate such questions as:

- What role do I expect a particular channel member to play in the channel?
- What role is the member (potential or existing) expected to play by his/her peers (other firms of a similar type)?
- Do my expectations for this member conflict with those of his/her peers?
- What role does this member expect me to play?

Communication Processes in the Marketing Channel

1. Behavioral Problems in Channel Communications

A) Differences in goals between channel members
B) Differences in the kinds of language used to convey information

2. Other Behavioral Problems in Channel Communications

A) Perceptual differences among channel members
B) Secretive behavior
C) Inadequate frequency of communication

Discussion

1. A marketing channel is an interorganizational social system; the behavioral dimensions of a social system must be included in a model of a channel.
2. If a channel manager is to design and manage marketing channels that are effective and efficient, he/she must understand how people behave individually and collectively. The behavioral dimensions such as power, conflict and the communication process affect the operation of the channel and must be considered in the channel manager's plans and actions.
3. Discuss about channel efficiency.
4. Underlying causes of conflicts are: (1) role incongruities, (2) resource scarcities, (3) perceptual differences, (4) expectation differences, (5) decision domain disagreements, (6) goal incompatibilities, and (7) communication difficulties.
5. Provide examples of role incongruities, decision domain disagreements, and perceptual differences.
6. Discuss the bases of power are: (1) reward, (2) coercion, (3) legitimacy, (4) referent, and (5) expert.

MATERIALS AND EQUIPMENT:

- Visual aids – PowerPoint slide show presentation
- Case NTT Docomo : mobile channel

ASSIGNMENTS:

In-class exercise: students assume the various roles in the channel system. Some students can assume the role of channel manager, and others wholesalers and retailers. Ask the students to see how their perception(s) change on how they view the products/services offered while in their "roles".

LESSON 4: STRATEGY IN MARKETING CHANNELS

Lesson Content: This lesson presents a strategic framework for dealing with the managerial decisions involved in marketing channels. This lesson is important to get the most out of it because it provides a strategic backdrop for most of the distribution channel management decisions to be discussed in subsequent chapters.

Objectives

Learning Objectives – Upon completion of this lesson, the students should be able to:

- Understand the meaning of channel strategy.
- Be able to describe the six basic distribution decisions that firms face.
- Have an awareness of the potential for channel strategy to play a major role in the overall corporate objectives.
- Recognize the relationship of distribution to the other variables in the marketing mix and the role of channel strategy.
- Be alerted to the conditions that tend to favor an emphasis on distribution strategy in developing the marketing mix.
- Appreciate the role of channel strategy in creating a differential advantage through channel design.
- Have a familiarity with the implications of the selection decision for channel strategy.
- Know the key strategic decisions faced by the channel manager in the

DURATION: 3.0 hours

Important topics

1) Channel Strategy Defined
2) Marketing Channel Strategy and the Role of Distribution in Corporate Objectives and Strategy
3) Marketing Channel Strategy and the Marketing Mix
4) Channel Strategy and Designing Marketing Channels
5) Channel Strategy and the Selection of Channel Members
6) Channel Strategy and Managing the Marketing Channel
7) Channel Strategy and the Evaluation of Channel Member Performance

Discussion

1. Discuss channel strategy is a component of marketing strategy.
2. Discuss the six basic distribution decisions most firms will need to consider.

3. There are virtually no “automatic” decisions in any part of business management. To determine how vital distribution is to a firm, the firm’s management must decide if attainment of certain distribution objectives is crucial to the firm’s long-term success. Discuss.
4. Automatically dismissing any powerful business tool is dangerous. Distribution is no exception. Before relegating distribution to a low priority, management should evaluate carefully its competitive situation and its available resources to determine if distribution might be a valuable basis on which to build sustainable competitive advantage. Discuss.
5. Channel strategy fits under the distribution variable of the marketing mix. Explain this statement.
6. Describe four major clues should be given special attention when determining the importance of distribution in the marketing mix.
7. Synergy is the concept that two parties together can achieve things neither could alone. In marketing channels, the terms distribution partnerships, partnering, strategic alliances and networks are used to describe the synergistic effort. The marketing channel strategy is to build a strong and close working relationship between the manufacturer and the intermediaries in hopes of enhancing the success of both. Discuss.
8. In order to achieve the distribution objective with channel efficiency, the channel manager must secure the cooperation of the channel members. To plan and implement a program that will secure that cooperation, the channel manager must address three strategic questions. Discuss.

MATERIALS AND EQUIPMENT:

- Visual aids – PowerPoint slide show presentation
- Case study Barnes & Noble college bookstores

ASSIGNMENTS:

1. Discuss the case of Dell® computers, and Barnes & Noble college bookstores.

2. Explain an advertisement for Rolex® watches informing consumers to only buy a Rolex watch from an authorized dealer.

LESSON 5: DESIGNING THE MARKETING CHANNEL

Lesson Content: This lesson focuses on the elements necessary in the decision making process of choosing marketing channels (channel design) for distribution of a firm's products.

Objectives

Learning Objectives – Upon completion of this lesson, the students should be able to:

- Understand the definition of channel design and the key distinguishing points associated with it.
- Realize that channel design is a complex process.
- Know the sequence of the channel design paradigm and understand the underlying logic of the sequence.
- Recognize a variety of situations that might call for a channel design decision.
- Be familiar with the concept of distribution objectives and the need for congruency with marketing and corporate objectives and strategies.
- Be able to specify distribution tasks.
- Recognize the three dimensions of channel structure and the strategic significance of each dimension.
- Delineate and define the six basic categories of variables affecting channel structure.
- Recognize the limitations of the channel manager's ability to choose an optimal channel structure in the strictest sense.
- Be familiar with the major approaches for choosing a channel structure.
- Have an appreciation for the value of judgmental-heuristic approaches for choosing channel structures in the real world.
- Understand the portfolio concept as it applies to motivating channel members.
- Be aware of the main channel strategy issues involved in the evaluation of channel members.

DURATION: 3.0 hours

Important topics

- What is Channel Design?
- Who Engages in Channel Design?
- A Paradigm of the Channel Design Decision
- Phase 1: Recognizing the Need for a Channel Design Decision
- Phase 2: Setting and Coordinating Distribution Objectives
- Phase 3: Specifying the Distribution Tasks
- Phase 4: Developing Possible Alternative Channel Structures

- Phase 5: Evaluating the Variables Affecting Channel Structure
- Phase 6: Choosing the "Best" Channel Structure

Discussion

1. Discuss *evolution of channels (*refers to channels that have come into existence without a conscious channel design process), channel design (involves the *allocation of distribution tasks* to create an efficient channel structure. In Phase 3 of channel design, the channel manager specifies the distribution tasks that need to be done to achieve the distribution objectives. In Phase 4, the channel manager considers various ways to allocate those tasks through the alternative channel structures), *Channel structure (* has three dimensions: the number of levels in the channel, the intensity at each level and the types of intermediaries at each level. Alternative channel structures are developed in Phase 4 of channel design).
2. Gaining differential advantage should be uppermost in the channel manager's mind when he/she is designing channels. The channel design strategy should be to devise a channel that will be difficult to duplicate, will differentiate the firm from its competitors and will meet the needs of the target market better than the competition's channels. Such a superior channel design can contribute to gaining sustainable competitive advantage.
3. There are almost an unlimited number of conditions that may foster the need for channel design decisions, some of the most common of which are mentioned in the text. To expand upon this list, students should consider possible strategic changes in the other variables in the marketing mix (product, price, and promotion), as well as possible developments in target markets and the environment, in terms of how these developments might foster channel design decisions.
4. A distribution objective is a statement about what the distribution component of the marketing mix is expected to contribute toward achieving the firm's overall marketing objectives.
5. In evaluating alternative channel structures, the channel manager should consider six categories of variables. Discuss.
6. Discuss channel structures are described on three dimensions.

MATERIALS AND EQUIPMENT:

- Visual aids – PowerPoint slide show presentation
- Case study Levi Strauss & Co.

ASSIGNMENTS:

1. Discuss the case of Levi Strauss & Co.

LESSON 6: SELECTING THE CHANNEL MEMBERS

Lesson Content: This lesson focuses on the process of selecting the correct channel members (described as "strong") who can perform the distribution tasks most efficiently.

Objectives

Learning Objectives – Upon completion of this lesson, the students should be able to:

- Have an appreciation for the importance of channel member selection.
- Understand the relationship between channel member selection and distribution intensity.
- Know the main sources for finding prospective channel members.
- Be familiar with generalized lists of selection criteria.
- Recognize the need for adapting selection criteria to the needs of particular firms.
- Realize that channel member selection can be a two-way street.
- Appreciate the need to offer inducements to prospective channel members to secure them as actual channel members.
- Recognize the human side of channel member selection and the role of fair and friendly relationships in channels.
- Recognize the limitations of the channel manager's ability to choose an

DURATION: 3.0 hours

Important topics

- Channel Member Selection and Channel Design
- The Selection Process
- Finding Prospective Channel Members
- Applying Selection Criteria
- Securing the Channel Members

Discussion

1. Selection decisions may occur independent of channel design decisions such as when channel members who have left or who have been dropped must be replaced. In fact, replacement of firms that have left the channel (be it voluntary or involuntary turnover) is believed to be the most common reason for selection decisions.
2. The general rule is an inverse relationship: the greater the intensity, the less emphasis given to channel member selection. The more selective the distribution, the greater the emphasis given to channel member selection.
3. A wide variety of sources can be tapped for prospective channel members. The most common are:

- *Field Sales Organization:* sales reps often are aware of, perhaps even in contact with, intermediaries in their territories that are likely to be available.
- *Trade Sources:* trade associations, trade publications and directories are a source of listings of intermediaries, often with information regarding the lines carried and the territory covered.
- *Reseller Inquiry:* intermediaries seeking lines contact suppliers directly. Unsolicited inquiries are made primarily to well-known, well-regarded suppliers.
- *Customers:* customers who give frank appraisals about the service provided by their current suppliers are a valuable source of prospective intermediaries.
- *Advertising:* inquiries from prospective channel members can be solicited through advertisement in trade publications.
- *Trade Shows:* manufacturers have access to numerous prospective channel members at these shows and conventions. Trade shows are especially useful to small, lesser-known manufacturers.

4. The use of the sales force to find prospective channel members is likely to be successful only if the sales force is rewarded for their efforts in attempting to find new channel members. If they are not adequately rewarded for engaging in this activity, salespeople are not likely to go out of their way to find prospective channel members and indeed may resent being asked to do something for which they feel they are not being adequately compensated. A "new account bonus," paid when a new channel member is signed on, is one way to compensate sales reps for the time and effort invested in channel member recruitment.
5. Each of the following general criteria for selecting channel members can be used as a starting point for developing more specialized channel member selection criteria:
   - *Credit and Financial Condition*: Will the prospective channel member be able to pay its bills?
   - *Sales Strength*: Does the prospective channel member have enough salespeople? Are they of high enough quality? Do they have the technical competence needed to sell the manufacturer's product?
   - *Product Lines*: Do the product lines currently carried by the prospective channel member enhance or detract from the manufacturer's product line? Are the current lines competitive, compatible or complementary? Is there any potential for synergy between the current lines carried by the channel member and those offered by the manufacturer?
   - *Reputation*: Does the prospective channel member enjoy a good reputation in its community and among its customers? Is the prospective channel member's image up to the standard the manufacturer is trying to project?
   - *Market Coverage*: Does the prospective channel member cover the geographic territory the manufacturer is seeking to reach? Does the prospective channel member cover any geographic territory already covered by an existing member of the manufacturer's channel?
   - *Sales Performance*: Does the prospective channel member's sales performance history suggest the likelihood it will be able to capture the market share sought by the manufacturer?
   - *Management Succession*: How deep is the prospective channel member's executive talent? Is there a plan of succession? In the event of turnover (voluntary or involuntary) in key management positions, will there be continuity of management?

- *Management Ability*: Is the prospective channel member's management competent? Is the firm managed well?
- *Attitude*: Does the prospective channel member have the attitude necessary for success? Is it enthusiastic about a relationship with the supplier? Will it show initiative and be aggressive in pursuing business?
- *Size*: Is the prospective channel member large enough to do the job?

6. The inducements the channel manager can use to persuade a prospective channel member to join the channel fall into four categories:
   - *Product Line*: The most basic and essential inducement is a product line that will generate sales and profits for the channel member.
   - *Advertising and Promotion Support*: Prospective channel members can be enticed by evidence of the manufacturer's efforts to generate demand with pull promotion. Likewise, the prospective channel member will be attracted by the availability of advertising, and promotion allowances and materials to channel members.
   - *Management Assistance*: Prospective channel members can be persuaded by a manufacturer's commitment to help its channel members do a better job of managing their businesses - not just selling the manufacturer's product. Such management assistance can be offered in myriad forms including training programs, financial analysis and marketing planning assistance.
   - *Fair Dealing Policies and Friendly Relations*: Conveying a genuine interest in the prospective channel member as both a business and as an individual can be an inducement to the prospective channel member and can be the foundation for building a strong relationship. A sense of trust and a belief in fair play also must be conveyed.
7. The essential idea in the partnership between a producer or manufacturer and its channel members is one of mutual support and benefit. That is, each of the "partners" can look to the other with confidence that it will perform the functions expected of it so that all of the channel members can realize their objectives. The offering of a "partnership" by the manufacturer conveys an attitude of respect for and trust of the prospective channel member. It also conveys an appreciation of the value the prospective channel member brings to the channel.

MATERIALS AND EQUIPMENT:

- Visual aids – PowerPoint slide show presentation
- Case study ALDI

ASSIGNMENTS:

1. Discuss the case ALDI

LESSON 7: TARGET MARKETS AND CHANNEL DESIGN STRATEGY

Lesson Content: This lesson focuses on an understanding of who buys products and how the "who" affects channel strategy. The lesson leans heavily on consumer buying behavior.

Objectives

Learning Objectives – Upon completion of this lesson, the students should be able to:

- Appreciate the importance of market variables as the most fundamental and significant variables to consider for channel design strategy.
- Be familiar with the framework for market analysis and its four basic dimensions.
- Recognize the importance of keeping track of changes in market geography as it might affect channel design strategy.
- Know how market size relates to channel design strategy.
- Know the concept of efficient congestion as it relates to market density.
- Understand the meaning of market behavior in terms of the when, where, how and who subdimensions.
- Realize that any or all of the subdimensions of market behavior are subject to change.
- Be cognizant of the implications of changes in market behavior on channel

DURATION: 3.0 hours

Important topics

- A Framework for Market Analysis
- Market Geography and Channel Design Strategy
- Market Size and Channel Design Strategy
- Market Density and Channel Design Strategy
- Market Behavior and Channel Design Strategy

Discussion

1. The market variables are the most basic and important variables in channel design because, quite simply, the needs and wants of the target market should drive channel design. The target market is the final adjudicator of the channel design.
2. The market variables are a four-dimensional construct for analyzing markets. The four basic dimensions are:
   - *Market Geography*: defines the market in terms of its geographic boundaries, its location and its distance.
   - *Market Size*: defines the market in terms of the number of buyers or potential buyers.

- *Market Density*: defines the market in terms of the number of buyers or potential buyers per unit of geography.
- *Market Behavior*: consists of four sub-dimensions:
  a. *When the market buys*: seasonal, weekly and daily variations in the time of purchase.
  b. *Where the market buys*: the types of outlets from which the buyers choose to make their purchases and the location of those outlets.
  c. *How the market buys*: the buyer's purchase behavior including quantity purchased per transaction, purchase assistance, stops per shopping trip, purchase decision process, credit utilization, in-home versus out-of-home purchasing, effort expended and service demanded.
  d. *Who buys*: includes both the actual buyer and those partaking in the purchase decision.

3. The channel manager needs to be aware of and sensitive to changes in market geography because such changes can precipitate a channel design decision. The opening of new markets at a geographic distance, for example, may lead to a change in the number of levels in the channel structure.
4. Some of the basic questions that should be raised by an increasing market size are: (1) the effect of larger markets on the average cost of serving buyers, (2) possible changes in channel structure to reduce costs of serving larger markets, and (3) the possibility of gaining a differential advantage through channel design changes in response to increasing market size.
5. Highly dense markets are said to be in efficient congestion because the large number of buyers per unit of geography facilitates the performance of such distribution tasks as transportation, storage, communication and negotiations. The large number of buyers may allow the manufacturer to emphasize economies of scale rather than economies of scope in channel design and thus structure a shorter channel. However, while such market density usually supports shorter channels, there can be additional variables at work that would offset this heuristic. This is especially true in some foreign markets.
6. Both consumer and industrial buyers elect their purchase outlets (both type and location) based on complex motivations. The recent success of new forms of store and non-store retailing evidence that the buyer's election can be highly variable across time and situations. It is not even understood whether changes in this election are precipitated by buyers demanding new places to purchase goods or by sellers offering new assortments of goods. Nonetheless, the channel manager must design a channel that enables targeted buyers to purchase where they want.

MATERIALS AND EQUIPMENT:

- Visual aids – PowerPoint slide show presentation
- Case study Ben & Jerry's Homemade, Inc.

ASSIGNMENTS:

1. Discuss the case Ben & Jerry

LESSON 8: MOTIVATING THE CHANNEL MEMBERS

Lesson Content: The three facets of motivation management in the channel are: (1) learning about the needs and problems of the channel members, (2) developing programs to support their needs, and (3) providing leadership. Good channel support programs require careful planning and fall into three areas: (1) cooperative agreements, (2) partnership and strategic alliances, and (3) distribution programming. Leadership must still be exercised on a continuing basis if motivation programs are to operate effectively and viably.

Objectives

Learning Objectives – Upon completion of this lesson, the students should be able to:

- Understand the definitions of channel management and motivation management in marketing channels.
- Recognize the distinction between channel management decisions and channel design decisions.
- Be familiar with the basic framework for motivating channel members.
- Know the major means for learning about channel member needs and problems.
- Understand the basic approaches for providing support for channel members.
- Be aware of the underlying differences in the relationships implied in the three approaches for supporting channel members.
- Be cognizant of the need to provide leadership in channels through the effective use of power.
- Realize that there are significant limitations on the degree of channel control

DURATION: 3.0 hours

Important topics

- Finding Out the Needs and Problems of Channel Members
- Offering Support to Channel Members
- Providing Leadership to Motivate Channel Members

Discussion

1. Channel management refers to the administration of *existing* channels, while channel design refers to setting up new channels where none had existed before or to the modification of existing channels. Channel design decisions are concerned with setting up the channel; channel management is concerned with running what

already has been set up. Channel design creates potential; channel management realizes it.

2. Ideally, a truly effective information flow would provide all the information the channel manager needs. However, the ideal information flow does not exist. In practice, the communication systems operating in marketing channels do not routinely deliver the comprehensive, accurate and timely information needed by the channel manager. Thus, the channel manager should not rely solely on the channel's communication system. Supplemental approaches including research studies, channel audits, and distributor advisory councils should be utilized.
   The channel manager must recognize that intermediaries perceive needs and face problems quite different from those of a manufacturer. Understanding how channel members view themselves is essential to effective channel management.
3. All channels of distribution have an information flow that enables channel members to communicate and interact. This information flow can be characterized as direct and indirect. The direct flow includes such sources as salespeople, catalogs, merchandise information, visits to factories, and several others. The indirect flow includes trade journals and trade association publications, advertising agencies, marketing research firms, government publications.
4. Channel managers can learn about the needs and problems of channel members using four approaches:
   - *Research Studies Conducted by the Manufacturer*: The manufacturer's own staff designs and conducts the study.
   - *Research Studies Conducted by Outside Parties*: More complete and unbiased information is likely to be obtained when a third party designs and conducts the research. Channel members may be more willing to respond frankly to a party from outside the channel. Outside research houses also lend expertise to the study.
   - *Marketing Channel Audits*: A comprehensive review of channel relationships is conducted to gather data on channel members' perceptions and expectations. A principal benefit of the audit is early warnings about potential conflict areas. These audits should be conducted on a periodic and regular basis to capture trends and patterns.
   - *Distributor Advisory Councils*: This formal group is composed of channel members, both the manufacturer and intermediaries. The council is a source of recognition for intermediaries, a vehicle for identifying and discussing mutual needs and problems, and a means of improving channel communications. These councils foster direct and candid dialog among channel members.

5. A channel arrangement based on distribution programming has a much more comprehensive and explicit set of operating policies than a conventional channel. Secondly, the distribution-programmed channel is much more closely managed and supervised than the typical conventional channel. Third, many distribution programming arrangements are formalized in the form of a legally binding, written contract. Finally, distribution programming agreements foster mutual commitment and long-term relationships among the channel members.

6. *Control* is the ability to predict events or to achieve a desired outcome. *Leadership* is the use of power to achieve control. *Power* is the capacity of one channel member to influence the behavior of another channel member. In order to motivate channel members, the channel manager must be able to exert some

control over the channel members and must provide leadership. Both control and leadership, however, are highly dependent upon the level of power available to the channel manager: more power increases his/her capacity to exercise control and leadership in the channel.

7. Discuss about Ford Corp. The first development that is indicative of effective leadership is that Ford *admitted there was a problem* with its dealership relations. Second, Ford also admitted that the competition, particularly Saturn, Infinity, and Lexus were doing a better job of dealer relations. Third, Ford realized it would actually be able to learn something from other auto companies and took steps in the form of talking to executives from their dealerships to learn more. Fourth Ford convened dealer advisory councils, which was a giant step for Ford given its history of ignoring dealer viewpoints. Finally, Ford went on record that it would make substantive changes in a wide range of areas from dealer training to how autos are ordered and sold.

MATERIALS AND EQUIPMENT:

- Visual aids – PowerPoint slide show presentation

ASSIGNMENTS:

1. Discuss the Ford Corp.

LESSON 9: PRODUCT ISSUES IN CHANNEL MANAGEMENT

Lesson Content:
Effective channel management requires that the channel manager be aware of how channel management interfaces with product, price, promotion, and logistics in the marketing channel. Three basic areas of product management are considered: (1) new product planning and development, (2) the product life cycle, and (3) strategic product management. With respect to new product planning and development, the basic product channel management issues are: (1) obtaining channel member input into new product planning, (2) promoting channel member acceptance of new products, (3) fitting new products into channel member assortments, (4) educating channel members about the new products, and (5) making sure new products are trouble free. The product life cycle implications for channel management must also be understood by the channel manager if it is to be used to enhance the life cycle of a product. Strategic management of a product line is necessary if a product line is to remain viable and profitable. Among the most important of these strategies are: (1) product differentiation strategy, (2) product positioning, (3) product line expansion and contraction strategies, (4) trading-up and trading-down strategies, (5) product brand strategies, and (6) product service strategy. The channel manager must understand the interrelationships of these product strategies with channel management strategies to support the implementation of these product strategies.

Objectives

Learning Objectives – Upon completion of this lesson, the students should be able to:

- Understand the concept of marketing mix variables as resources for channel management.
- Realize that there are many potential interfaces between product management and channel management.
- Recognize the most basic interfaces between new product planning and channel management.
- Know the implications of each stage of the product life cycle for channel management.
- Be aware of the relationship between strategic product management and channel management.
- Be cognizant of how product differentiation, product positioning, product line expansion and contraction, trading up and trading down, and product brand strategy relate to channel management.
- Appreciate the role of marketing channels in providing product service

DURATION: 3.0 hours

Important topics

- New Product Planning and Channel Management

- The Product Life Cycle and Channel Management
- Strategic Product Management and Channel Management
- Trading Down, Trading Up, and Channel Management

Discussion

1. Channel managers can solicit input from channel members in several ways:
   - New product ideas can be solicited as a routine part of learning about channel member needs and problems.
   - New product ideas also can be solicited on an ad hoc basis during the ideation stage of the product development process.
   - Channel members can be asked to evaluate prototypes, especially of packaging.
   - Industrial distributors can be involved in identifying and supporting customers as beta test sites.
   - Channel members can provide feedback on market tests.

2. Students should recall from previous lesson that channel members perceive themselves as purchasing agents for their customers and view their product assortment as a "family" of items assorted to meet their customers' needs. If a channel member does not perceive a new product as enhancing this "family", it is not going to purchase it for its customers.
   Channel members also have difficulty fitting a new product into their lines if the product is too far afield from the current assortment in physical characteristics, method of sale, or support and service requirements. If the channel member does not have the facilities or skill to sell the new product successfully, it is not a fit.

3. The key implications will be outlined here:
   Introduction stage:
   a. Assure sufficient number of channel members for adequate market coverage.
   Growth stage:
   a. Same as (a) in introductory stage, but emphasis must be placed on the adequacy of channel member inventories.
   b. Monitor the effects of competitive products on channel member support.
   Maturity stage:
   a. Put extra emphasis on motivating channel members to mitigate competitive impact.
   b. Investigate possibilities for changes in channel structure to extend the maturity stage and possibly foster a new growth stage.
   Decline stage:
   a. Phase out marginal channel members.
   b. Investigate the impact of product deletions on channel members.

4. Several conditions under which a product deletion decision may create adverse reaction on the part of channel members are:

   a. When products are associated in the marketing process: that is, customers tend to buy the deleted product when they purchase other products
   b. When the sale of one product (the deleted one) helps the channel member to sell other products to its customers

c. When certain channel members still face strong customer demand for the product that is to be deleted

5. Strategic product management depends upon several factors, including channel management, for successful implementation. Such product management strategies as product differentiation, product positioning, product line expansion and contraction, trading up and trading down, branding, and service strategies may all require channel member participation, cooperation, and follow-through to work effectively.
   Strategic product management and channel management should be viewed as equally important because they are so entwined. Successful product strategies depend heavily upon effective channel management, while effective channel management is much easier when good product strategies have been developed. Both product and distribution can be used to build sustainable competitive advantage.

6. Product differentiation and product positioning strategies may require particular forms of distribution to help create the desired differentiation or position. For example, the type of store the product is sold in may be just as important in differentiating a particular product as the physical differences in the product itself or the way it is advertised.
   Similarly, in order to get a product to be perceived in a particular way relative to other products (product positioning), the product may have to be carried by particular types of retailers and be displayed alongside specific competitive products against which it is being positioned.

7. In product line extensions, the manufacturer may expect the product's sales to come from competitors' products. To the channel manager, this is not new business; it is simply the sale of a different product – not an additional product – to an existing customer. Channel members want new products that generate new business.
   In product line contractions, the manufacturer is looking at sales and costs in the total market whereas the channel member is looking at the local market only. One product, for example, may generate enough sales in the local market to make it useful and profitable, even important, to the channel member. To the channel manager, however, it may have insufficient volume.

   Trading up and trading down strategies raise issues of channel capabilities. The manufacturer has to determine if the current channel structure and members can reach the new market. Channel members may not be confident that the manufacturer has the ability to be successful in the new market.

   The "Battle of the Brands" is aptly named; significant channel issues are associated with a strategy of manufacturing both national and private brands. This dual distribution can create competition and increase the goal incongruence between the manufacturer and the channel member.

8. Post-sale service is as much a deliverable as the product itself. Further, post-sale service can have a consequential impact on the final user's ultimate product satisfaction, and future relationship with both the channel member and the

manufacturer. Clearly, post-sale service cannot be treated as an afterthought in either product or channel management.

In designing the channel, the manufacturer must decide if post-sale service is a distribution task it will allocate or one it will retain. If the decision is to allocate it, it will impact the type of channel members included in the channel structure as well as the selection and evaluation criteria for channel members. If the manufacturer elects to retain the service task, arrangements for reverse logistics through the channel members must be considered.

MATERIALS AND EQUIPMENT:

- Visual aids – PowerPoint slide show presentation
- Case Bristol-Myers Squibb

ASSIGNMENTS:

1. Discuss the case Bristol-Myers Squibb.

LESSON 10: PRICING ISSUES IN CHANNEL MANAGEMENT

Lesson Content: This lesson examines the nature of pricing in channel management. Pricing strategy should incorporate channel considerations before being implemented. If the channel members perceive a manufacturer's pricing strategy to be congruent with their own interests, they are likely to have a higher level of cooperation and the reverse is also true.

In developing pricing strategies, there are eight guidelines: (1) profit margins should be adequate for channel members, (2) margins offered to different classes of channel members should vary in proportion to the functions the channel members perform, (3) margins should be competitive with those of rival brands, (4) special arrangements that result in either an increase or decrease in services rendered should be reflected in the margins, (5) the manufacturer should conform to conventional norms for margins in the trade, (6) variations in margins on different models should be logical, (7) if price points exist at the wholesale/retail levels they should be recognized and prices set to meet these price points, and (8) variations in prices by a manufacturer for different products in its line should be associated with visible or identifiable differences in its line.

There are five major pricing issues a manufacturer is likely to face: (1) pricing control in the channel, (2) the impact of major price policy changes, (3) the passing of price increases through the channel, (4) use of price incentives, and (5) the problems created by "gray market" and "free riding".

Objectives

Learning Objectives – Upon completion of this lesson, the students should be able to:

- Be aware of the importance of pricing issues in marketing channel management.
- Understand the "anatomy" of channel pricing structure and the pervasiveness of its influence in channel pricing strategy.
- Recognize the channel manager's role in influencing the firm's pricing strategy.
- Know the eight basic guidelines for developing effective channel pricing strategy.
- Realize that these guidelines are not simple prescriptions for channel pricing strategies.
- Be cognizant of some of the most basic and recurring issues in channel pricing policies.

DURATION: 3.0 hours

Important topics

- Anatomy of Channel Pricing Structure
- Guidelines for Developing Effective Channel Pricing Strategies
- Other Issues in Channel Pricing

Discussion

1. While target markets, competitive forces and internal costs all are essential factors to consider in developing pricing strategies, this set of factors is deficient without the fourth factor: channel considerations. The effect on channel members must be an explicit consideration in pricing strategy development.
2. The channel manager must focus on the channels implication of the firm's pricing policies and strategies. It is his or her job to see that those policies and strategies are consistent with channel member needs and that they help to promote channel member cooperation rather than conflict. The channel manager also must find out channel members' reactions to the manufacturer's pricing decisions and assess the effect on channel members' performance.
3. The channel members and the manufacturer consummate an exchange: distribution services for gross margin. In effect, gross margin is the price the manufacturer pays for the services delivered by the channel member. The manufacturer is competing with all other suppliers for the services of the channel members. Equating its trade discount structure to channel price should cause the manufacturer to focus on value received and the competitive environment. Margins offered to channel members who carry rival brands should be competitive with those rival brands. If they are not, the channel members will not promote the product aggressively and may eventually drop it altogether. Thus, the channel manager should pay very careful attention to the margins available to channel members on rival brands and attempt to match or best them if necessary.

   If an arrangement between the manufacturer and channel member goes beyond normal practices in the trade, pricing strategy should reflect this. For example, if the manufacturer expects retailers to provide unusually strong promotional support, extra margin potential should be offered to the retailer.

4. When manufacturers offer a promotional product at a below norm margin, channel members are amenable *if* they are convinced that these products can be used in an effective promotion program to build traffic or increase order size. Manufacturers should select their promotional products carefully, and assist channel members in using them, so that these goals are met. They also should recognize that channel members will be more receptive to the lower margins on these products if they are confident that the manufacturer also is earning a below norm margin on the product. Other products offered at a margin below the norm are likely to be ignored by channel members. In effect, the channel manager should limit the use of below norm margins to promotional purposes.
   Price points (particular prices at which customers expect to find products offered and at which channel members want products to sell) should be watched carefully by the channel manager. If he or she cannot supply products to fit key price points, competitive products that do meet those price points may soon find their way onto channel members' shelves.

   When different models of a product carry different prices, there should be a solid association between product features and benefits and the price. This will make it easier for the channel member to sell the higher priced products. Manufacturers should pay keen attention to this when introducing a new model or product line. Channel members may need training and/or materials to learn to sell the model.

5. There are two aspects to the issue of price control in the channel: domain and legality. Channel members consider pricing to be their domain because they know local customers and local market conditions better than the manufacturer. They resist manufacturers' attempts to control price.
   Overall, manufacturers should avoid encroaching on channel members' pricing policies unless it is essential to long-term market success. If it is necessary, no coercive action should be undertaken. Channel members resent it and it may well be illegal. "Friendly persuasion" is the only option available to manufacturers.

6. A change in the manufacturer's pricing policies and terms of sale will activate channel members' kainotophobia (fear of change). How the channel members actually adapt to the changes will depend on whether they perceive the change to benefit them. If they do not, and competitive suppliers price under the former policies, the channel members may cut back on orders from manufacturers with the new pricing. Manufacturers should consider how the channel members will react to the pricing changes *before* implementing them.
7. Before attempting to simply pass major price increases through the channel automatically, the manufacturer should explore three alternative strategies. First, the long- and short-term effects of the price increase should be considered. If the long-term effects in terms of maintaining channel member support are likely to be negative, the manufacturer should consider absorbing some of the price increase and thus trade off short-term profitability for longer-term maintenance of channel member support. Second, if passing on the price increases is unavoidable, the manufacturer should attempt to develop strategies for mitigating the negative effects of the price increases on channel members by offering better payment terms, special deals, or the opportunity to "stock up" before the price increase goes into effect. Finally, the manufacturer could attempt to make changes in other areas of the marketing mix to offset the effects of the price increase. For example, product models or features might be changed to help hold down the price.

MATERIALS AND EQUIPMENT:

- Visual aids – PowerPoint slide show presentation
- Case Apple Computer Corp.

ASSIGNMENTS:

1. Discuss the case Apple Computer Corp.

LESSON 11: PROMOTION TRHOUGH THE MARKETING CHANNEL

Lesson Content: This lesson examines the various forms of promotions that are available to channel managers. One of the major tools the manufacturer uses for implementing an integrated promotional program is selling support by channel members. A manufacturer must carefully administer promotional strategies to help assure a high degree of channel member cooperation in the promotion of its products. Research shows that merely offering more monetary incentives is not sufficient to secure promotional cooperation from channel members.
Push promotional strategies can be placed into seven general categories: (1) cooperative advertising, (2) promotional allowances, (3) slotting fees, (4) display and selling aids, (5) in-store promotions, (6) contests and incentives, and (7) special deals and merchandising campaigns.
In addition, there are four "kinder and gentler" push promotions. These are: (1) training programs, (2) quota specification, (3) missionary selling, and (4) trade shows.

Objectives

Learning Objectives – Upon completion of this lesson, the students should be able to:

- Recognize that reseller (channel member) support is one of the major tools of the manufacturer's promotional mix.
- Understand the distinction between pull and push strategies.
- Realize that push promotional strategies are being used with increasing frequency and account for more dollars that pull promotions.
- View promotion through channel members as a major form of channel strategy rather than mere tactical actions to get channel members to sell more products.
- Know about the major findings from research on push promotions.
- Be familiar with the seven basic types of push promotions that require channel member support.
- Know the four types of "kinder and gentler" push promotional strategies.
- Have a feel for the pros and cons of the various promotional strategies in the context of gaining channel member support.

DURATION: 3.0 hours

Important topics

- Promotional Strategies and Channel Member Cooperation
- Basic Push Promotional Strategies in Marketing Channels
- "Kinder and Gentler" Push Promotion Strategies in Marketing Channels

Discussion

1. Many promotional strategies require a good deal of support from channel members to work successfully. If the channel members do not offer this support, the entire promotional program may be jeopardized. For example, any manufacturer's promotion to consumers, be it coupons, buy one get one free, or a bonus pack, requires sufficient inventory to meet increased demand. Because the intermediaries are independent businesses, the manufacturer cannot force them to carry sufficient inventory, honor coupons or use in-store displays. Absent the ability to control the intermediaries, the manufacturer must seek voluntary cooperation.
2. The major findings from research on push promotions are:
   a. Ad hoc, quick fix, and frequently offered push promotions do not foster high levels of channel member support.
   b. Push-type promotions should be viewed as part of strategic channel management rather than as mere promotional tactics aimed at getting channel members to sell more products.
   b. Manufacturers should study channel member needs carefully in order to develop more on-target promotional programs.
   c. Follow-up research should be constructed to improve promotional programs requiring channel member participation.
   d. Large and powerful channel members inevitably will come into conflict with the manufacturer over promotional issues because their interests and goals will at times diverge.

3. Eight key factors were found to affect trade promotional support: (1) item importance, (2) promotion elasticity, (3) manufacturer brand support, (4) manufacturer reputation, (5) promotion wearout, (6) sales velocity, (7) item profitability, and (8) incentive amount.
4. The evidence available on the use of coercive power in the marketing channel suggests that coercive power is *not a* good base to use in the development of channel member sales quotas. That is, quotas, if based on coercive power, are likely to be viewed by the channel members as threats, which may increase the likelihood of conflict developing. If, on the other hand, quotas are set on the basis of expert power (i.e., the manufacturer presents quotas as its informed judgment of the sales potential in the channel members' territories), they are more likely to be viewed as providing constructive assistance by the manufacturer to its channel members.
5. The use of missionary salespeople may foster conflict if a channel member perceives the services performed by these salespeople as a step toward the manufacturer selling directly to the channel member's customers itself. Further, missionary salespeople may be viewed by some channel members as bothersome because they take up too much of the time of their own sales force.

MATERIALS AND EQUIPMENT:

- Visual aids – PowerPoint slide show presentation
- Case Avon Product Inc.

ASSIGNMENTS:

1. Discuss the case Avon Product Inc.

LESSON 12: THE MARKETING CHANNEL **LOGISTICS AND CHANNEL MANAGEMENT**

Lesson Content: This lesson covers the topic of logistics and how logistic management relates to channel management. The lesson will cover such topics as transportation, warehousing, materials handling and order processing in greater detail, should use supplemental materials

Logistics, the synonymous term of physical distribution, involves planning, implementing, and controlling the physical flow of materials from the point of origin to the point of the consumer at a profit. The role of logistics is to get the right amount of product to the right places in the right time.

There are six components of the logistics system: (1) transportation, (2) materials handling, (3) order processing, (4) inventory control, (5) warehousing, and (6) packaging.

Channel management interfaces with logistics management in four areas: (1) defining channel member service standards, (2) making sure a proposed logistics program meets these standards, (3) selling the program to the channel members, and (4) monitoring the program to see if it continually meets the demands of the channel members.

Objectives

Learning Objectives – Upon completion of this lesson, the students should be able to:

- Recognize that reseller (channel member) support is one of the major tools of the manufacturer's promotional mix.
- Understand the distinction between pull and push strategies.
- Realize that push promotional strategies are being used with increasing frequency and account for more dollars that pull promotions.
- View promotion through channel members as a major form of channel strategy rather than mere tactical actions to get channel members to sell more products.
- Know about the major findings from research on push promotions.
- Be familiar with the seven basic types of push promotions that require channel member support.
- Know the four types of "kinder and gentler" push promotional strategies.
- Have a feel for the pros and cons of the various promotional strategies in the context of gaining channel member support.

DURATION: 3.0 hours

Important topics

- The Role of Logistics
- Logistics Systems, Costs, and Components
- The Output of the Logistics System: Customer Service
- Four Key Areas of Interface between Logistics and Channel Management

Discussion

1. Most simply, the role of logistics is to make products available to customers. The cliché defines the role of logistics as having the right product, at the right place, at the right time, and in the right condition. That cliché has been updated to recognize the equal importance of achieving the right level of service, for the right customers, in the right market. It is through the logistics system that these objectives are met.
2. The systems concept means that *all* of the basic components of a logistics system (transportation, materials handling, order processing, inventory control, warehousing, and packaging) are considered *together* as a total system so that the relationships among the components are taken into account. The total cost approach is based on the systems concept and follows logically from it because it stresses the need to consider *all* of the costs of logistics in decision making. The decision about what logistics system to use would then be based on that which can provide the desired level of customer service at the lowest *total cost* for all of the components of the logistics system taken as a whole.
3. Any logistics system consists of the following six basic components:
   a. *Transportation* - deciding on the modes of transport to be used.
   b. *Materials handling* - the range of activities and equipment involved in the placement and movement of products in storage areas.
   c. *Order processing* - the procedures and "paperwork" needed to fill orders.
   d. *Inventory control* - the process of managing inventory levels so as to have the products desired by customers while minimizing inventory levels.
   e. *Warehousing* - the holding of products until they are ready to be sold.
   f. *Packaging* - how products are protected for shipment and storage as it relates to other components of a logistics system.

4. The key issue in measuring the output of a logistics system is whether the system provides the kind and level of service that customers want. It is through careful specification of the logistics service standards that the firm can develop a logistics service program capable of satisfying customer service requirements. It is absolutely critical that the service standards be those that the channel members value.
5. Channel management is concerned with the overall design and administration of distribution channels and involves planning and management of *all* of the major channel flows (product, negotiation, ownership, information, and promotion), whereas logistics is concerned mainly with the product flow. Thus, channel management is a much more basic and comprehensive area of distribution than logistics. This does not mean, however, that channel management is "more important" than logistics. Logistics must be performed effectively and efficiently in order to implement the firm's overall channel policies and strategies. For clearly, even the most brilliantly conceived channel policies and strategies are of little value if the products in question are not made physically available to customers when and where they are needed.

6. Channel management and logistics management are linked closely. The four major areas of interface are:
   - *Defining the kinds of logistics service standards that channel members want*: It is essential to clearly define the kinds and levels of service desired by the channel members.

- *Making sure that the proposed logistics program designed by the manufacturer meets the channel member service standards*: The channel members' viewpoint, not the manufacturer's, is the determining perspective.
- *Selling the channel members on the logistics program*: To secure their cooperation, the channel manager must convince the channel members of the logistics program's value.
- *Monitoring the results of the logistics program once it is instituted*: Changing needs, changing competition and changing technology are guaranteed to create shortcomings in any logistics system across time. Channel members' satisfaction levels must be monitored so shortcomings can be corrected before they become crises.

7. The level of cooperation the manufacturer receives from its channel members is dependent upon many factors. One of these factors is the quality of the manufacturer's logistics program. If the logistics program does *not* meet the channel members' service standards, their level of cooperation may be affected adversely. Therefore, making sure that the logistics program does in fact meet the channel members' standards is very much a channel management issue.

8. The benefits of a proposed logistics program may not be apparent to the channel members. Hence, it may be necessary to sell them on its benefits. Several of the strongest appeals that are likely to be relevant to a wide range of channel members are: (1) reductions in out-of-stock conditions that a good logistics program might foster, (2) reduction in channel member inventories, and (3) the added manufacturer support that a good logistics program can help to foster.
9. Computer-to-computer ordering systems and EDI can indeed enhance the efficiency of ordering procedures dramatically. On the other hand, the *technology alone* of such systems should not be viewed as a substitute for developing effective channel strategies and building strong relationships among channel members. In short, computers are no substitute for good channel strategy and management, and should not be allowed to supplant "relationship marketing". These systems have far greater potential than simply improving ordering efficiency. The timely and accurate data that these systems collect and share can be used to improve planning in virtually all areas of channel management and logistics.

10. Just-in-Time (JIT) or kanban systems transfer products from supplier to user in a rapid and highly efficient fashion. JIT is a "demand-pull" system: inventory is "pulled-forward" from the supplier when needed by the user. Traditional production and inventory systems are "batch-push" and deliver inventory when it is ready rather than when it is needed.
    The objective of JIT systems is to reduce inventory and, in fact, sometimes are referred to as "stockless" or "zero inventory" systems. Productive capital is freed and the risk of aging stock is reduced or even eliminated. To be successful with JIT, a company needs well-coordinated systems, high employee skills and excellent supplier relations.

    The impact of JIT on marketing channels could be profound. Holding inventory is one of the distribution tasks commonly allocated to all levels of the channel. A manufacturer whose channel members want JIT inventory would have to establish

JIT within its own production and purchasing processes, or perform the entire inventory holding task itself.

MATERIALS AND EQUIPMENT:

- Visual aids – PowerPoint slide show presentation
- Just-In-Time article.

ASSIGNMENTS:

1. Discuss the Logistics strategy.

LESSON 13: ELECTRONIC and Direct MARKETING CHANNELS

Lesson Content: This lesson discusses the advantages and disadvantages of electronic marketing channels, namely the Internet. The lesson also discusses direct selling and direct marketing channel systems.

Objectives

Learning Objectives – Upon completion of this lesson, the students should be able to:

- Recognize that electronic marketing channels have become an everyday reality.
- Understand and be able to define what is meant by electronic marketing channels.
- Appreciate the difference between the uses of the Internet for information gathering versus true Internet-based interactive shopping.
- Realize that electronic marketing channels can result in both disintermediation and reintermediation in channel structure.
- Know the limitations of the Internet in terms of product flow and order fulfillment.
- Be familiar with developments and trends in electronic marketing channels.
- Be aware of the advantages and disadvantages of electronic marketing channels.
- Be cognizant of the key implications of electronic marketing channels for the six major decision areas of marketing channel strategy.
- Recognize that there are important alternative channels that differ significantly from the more conventional channels.
- Know the definition of direct selling.
- Be familiar with the structure and general trends in direct selling.
- Understand the rationale for designing direct selling channels.
- Know the definition of direct marketing.
- Be familiar with the structure and general trends in direct marketing.
- Understand the rationale for designing direct marketing channels.

DURATION: 3.0 hours

Important topics

- Electronic Marketing Channels Defined
- Structure of Electronic Marketing Channels
- Developments and Trends in Electronic Marketing Channels
- Advantages and Disadvantages of Electronic Marketing Channels
- Implications for Marketing Channel Strategy and Management
- Direct Selling Channels
- Direct Marketing Channels

Discussion

1. Electronic marketing channels are defined in the text as the use of the Internet to make products and services available so that target markets with access to computers (or web TVs) can shop and complete transactions for purchase via interactive electronic means.
   Several key points should be noted in this definition:
   a. Available does not mean physical availability of tangible products that cannot be digitized and moved electronically.
   b. Personal computers are not the only means for gaining access to the Internet. Web TVs and possibly some other even cheaper technologies may come along in the future.
   c. The buyer and seller must be able to consummate the transaction via interactive electronic means.

2. Virtual channel structure may be appealing to significant segments of consumers who love to shop online. But the inherent limitations of the virtual channel structure of the Internet such as no product contact, having to wait for later delivery of the product and the lack of atmosphere of "bricks and mortar" available in real channels, may, even in the future, be unacceptable to vast segments of consumers. At this point, of course, no one knows for sure the answer to this question.
3. Key advantages of electronic marketing channels:
   1) global scope and reach
   2) convenience/rapid transaction processing
   3) information processing efficiency flexibility
   4) data-based management and relationship building capabilities
   5) lower sales and distribution costs

4. Key disadvantages of electronic marketing channels:
   1) lack of contact with actual products and delayed possession
   2) fulfillment logistics not at Internet speed or efficiency
   3) clutter, confusion, and cumbersomeness of the Internet
   4) non-purchase motives for shopping not addressed
   5) security concerns of customers

5. The key implications of electronic marketing channels for the major areas of channel decision making are as follows:
   1) Electronic marketing channels have broadened the range of channel options available to the firm.
   2) The Internet with its vast capacity to convey information may reduce the potency of the other Ps (product, price, and promotion) for gaining a competitive advantage.
   3) Channel design decisions *must* now include consideration of the Internet as a potential marketing channel.
   4) Management of marketing channels is likely to be *more* complex rather than less as a result of the Internet because the channel manager must deal not only with the more formalized conventional channels but with electronic marketing channels as well.

5) The criteria for channel member performance evaluation may change such as the use of "hits" on Web site and information gathering and performance may be carried out over the Internet.

6. Direct selling should be viewed as *a method of selling*: That is, it is *a particular type of marketing channel* that extends into *consumer's homes* rather than consumers going to stores.
   Direct selling as the term is used in the text applies only to *consumer markets* and specifically excludes the industrial or business market. The preferred term today for direct sales in the industrial (business) market is *business-to-business marketing* rather than direct selling.
   Direct selling involves the use of salespeople meeting face-to-face with customers either one-on-one in the customer's home or in party-plan situations where the sales presentation is made to a group of people also usually in someone's home.

7. Several key problems that have adversely affected direct selling are: (1) a lack of consumer awareness of direct selling as a viable alternative marketing channel, (2) negative impression of many consumers about the legitimacy and value of direct selling, (3) fewer women at home available and less time to receive direct sales call visits and parties, and (4) difficulty in recruiting enough direct salespeople.

8. Students should come up with myriad factors for each category of variables. Some examples are:
   - *Market Variables*: dense markets, consumer demand for more flexibility in "when" they buy and extensive purchase decision making are harbingers for direct selling.
   - *Product Variables*: products that are easily "lost in the crowd" of a retail store profit from direct selling; such products include those that are of high but not evident quality, those that are unique, and those needing demonstration or specialized information.
   - *Company Variables*: companies want; channels should consider direct selling.
   - *Intermediary Variables*: the need for intermediaries to provide high pre-sales presentation service suggests consideration of direct selling, especially when such service is not commonly rendered by conventional intermediaries.
   - *Environmental Variables*: sociocultural factors such as consumers' psychographics influence market behavior which, in turn, indicates the appropriateness of direct selling; recessionary conditions usually increase the availability of direct selling representatives.
   - *Behavioral Variables*: because direct selling is people intensive, it is better suited for situations where cooperation can be built and conflict minimized.

9. Some of the key problems facing direct marketing are: (1) the customer cannot actually come into physical contact with the product to see it. Hence, the number of products suitable for direct marketing and the number of customers willing to buy may be limited; (2) operating expenses can be high; (3) response rates are low, often under two percent when direct mail is used and often lower when other media are used; (4) literally billions of catalogs and direct mail pieces have served to clutter the direct marketing scene; and (5) there is still a substantial negative image associated with direct marketing.

10. If markets have specialized needs yet are geographically dispersed, direct marketing may provide an ideal type of channel. Factors to be evaluated when considering a direct market channel include:
    - *Product Variables*: products not readily available through conventional channels are well suited for direct marketing; products that require demonstration or examination before the sale are not so well suited.
    - *Company Variables*: start-up costs are low, so direct marketing seems attractive to entrepreneurs. However, both managerial expertise requirements and operating costs can be high. Direct marketing is well suited for manufacturers wanting a very high degree of control.
    - *Intermediary Variables*: direct marketing can be the solution when intermediaries willing and able to promote the manufacturer's products are in limited supply.
    - *Environmental Variables*: sociocultural factors such as consumers' psychographics influence market behavior which, in turn, indicates the appropriateness of direct marketing; technology advances, especially those related to database management, make identifying and reaching the market niches more efficient and effective; changes in state and local sales tax collection requirements could make both selling and purchasing through direct marketing more expensive.

MATERIALS AND EQUIPMENT:

- Visual aids – PowerPoint slide show presentation
- Internet

ASSIGNMENTS:

1. Ensure that the classroom is connected to the Internet during this lecture to allow for "visits" to some of the Web sites. If Internet access is available to the students via computer labs or wireless connections, this should be encouraged as well while discussing this lesson.

LESSON 14: MARKETING CHANNELS FOR SERVICES

Lesson Content: This lesson deals with the marketing channel for services. The class will begin with spending some time helping the students understand the five distinctions between services and products to help the students fully understand the concepts presented in this lesson.
The approach and emphasis differ from the marketing of products by the recognizable characteristics of services: (1) intangibility, (2) inseparability, (3) difficulties of standardization, (4) a high degree of customer involvement, and (5) perishability of services.
Channel strategy and management are even more important in the marketing of services because from the customer's point of view, the service and the service provider are often one and the same.

Objectives

Learning Objectives – Upon completion of this lesson, the students should be able to:

- Recognize the importance of services as a major and rapidly growing sector of the U.S. economy.
- Realize that the basic objectives of both product marketing and services marketing are the same.
- Understand the five characteristics of services that distinguish them from products.
- Know how marketing channels can be instrumental in tangibilizing services.
- Be cognizant of the problems presented by the inseparability of services and the difficulties of standardizing services for channel design and management.
- Be sensitive to the need for customer involvement in many services.
- Have an awareness of how the perishability of services affects channel strategy, design, and management.
- Be familiar with some additional perspectives on marketing channels for services so as to recognize possible relationships between services and marketing channels.

DURATION: 3.0 hours

Important topics

1) Special Characteristics of Services
2) Implications of Service Characteristics for Channel Management
3) Additional Perspectives on Marketing Channels for Services

Discussion

1. Tangible goods and services share two basic marketing objectives. Both must meet customer needs and both must be presented to customers to maximize their appeal.
2. Five characteristics distinguish services from tangible goods and present significant implications for the marketing of services:
   - *The Intangibility of Services*: simply, a service is not palpable; tangible features are not available to the producer to create differential advantage or appeal.
   - *The Inseparability of Services from Service Providers*: most services are inextricably tied to the service producer; so the individual producer's skill, talent, personality and demeanor are part of the service delivered; with tangible goods, the individual producer rarely even is known to the customer.
   - *The Difficulty of Standardizing Services*: each time a customer purchases a service, it is "created" at a distinct time *and* by a distinct service provider; thus, each will have some variance from all others; tangible goods are expected to be identical, but not services.
   - *The High Degree of Customer Involvement in Services*: customers may be deeply involved in the specification of services and in supplying input (usually in the form of information) to the production of the service; among tangible goods, such involvement is limited to custom-made products.
   - *The Perishability of Services*: services cannot be stored in inventory and therefore cannot be produced ahead of customer demand.

3. The marketing manager will want to tangibilize the service in order to differentiate it from competitors' services and to increase its appeal to the customers. The channel can be a potent basis for tangibilizing through attention to how the service is presented and delivered to the customer.
   The marketing manager will use product, promotion and price to tangibilize the service as well. Tangible objects can be added to the service and tangible images can be associated with it in promotion. High price can be used to tangibilize quality.

4. The inseparability makes it *more* difficult to market a service because the "safety net" available to product marketers, whereby the product itself can help make up for poor distribution, is not available to the services marketer.

5. Services are often tied very closely to the people who provide them. Hence, in the context of a marketing channel, it is difficult to achieve standardization if channel members offering the service have many different value systems and uneven quality of people in their organizations. Achieving maximum possible consistency must be addressed in channel design and, if intermediaries are included in the chosen design, in channel member selection.

6. Because services are produced and consumed simultaneously, their market life is exceedingly brief. The channel for services must be designed to maximize the sale of the service during this short life span.
7. The short channels typically used for services either exclude intermediaries or minimize the levels of intermediaries. Thus, channel design is less complicated. When direct channels are used, issues of structure and channel member selection

are eliminated, and all management is intraorganizational. Even when intermediaries are included in the structure, the number of levels typically is few, design complexity and interorganizational management issues thus are reduced.

8. Most channels rely on standardized, routine and repetitive processes to achieve efficiency. A high degree of customization makes it difficult to establish such processes.

9. Channel design is simplified because the variables associated with tangible goods, obviously, need not be considered in designing most channels for services. Further simplification is possible in those cases where the information, negotiation and promotion flows for services can be handled electronically.

MATERIALS AND EQUIPMENT:

- Visual aids – PowerPoint slide show presentation

ASSIGNMENTS:

1. Divide the students into a small group (4-5 persons). Assign specific service industry to each group and ask them to role play.