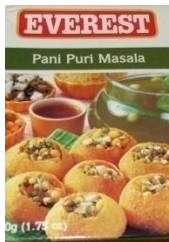# Distribution Management : The third "P" (Place)

DR. MRIDULA S. MISHRA

Why Marketing Channels?
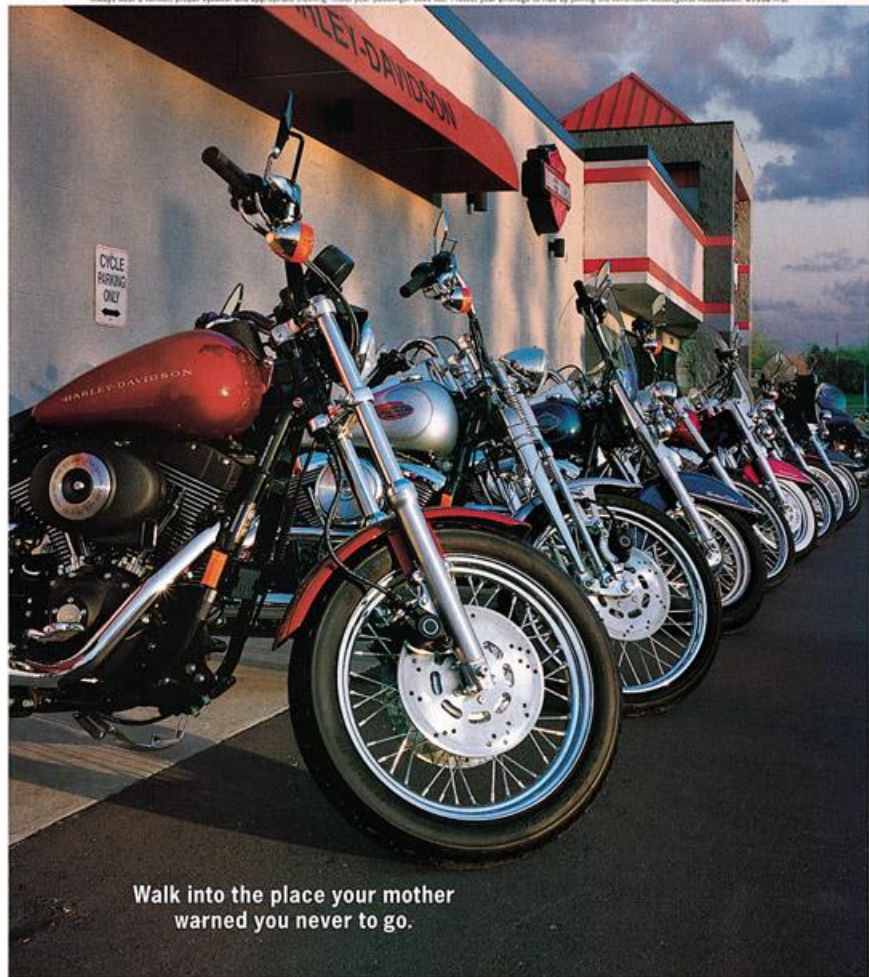
Intermediaries

Retail Formats

Manufacturers

What is Marketing Channel?

IT IS THE SET OF INTERDEPENDENT ORGANIZATIONS INVOLVED IN THE PROCESS OF MAKING A PRODUCT OR SERVICE AVAILABLE FOR USE OR CONSUMPTION.

Marketing Channels – Bringing Buyers and Sellers Together

1-800-flowers.com

One Marketing Channel for Flower Buyers

Bring the

right products

to the right consumers

At the right price

To the right place

Traditional Representation of Marketing Channel

Commercial Structure

Manufactures

Wholesalers

Consumption Structure

Retailers

Consumers

Range of Channels in Packaged-food Distribution

PUSH

	Promotion		Promotion		Promotion	
Producer	→	Wholesaler	→	**Retailer**	→	consumer
	← Demand		← Demand		← Demand	

PULL

	Demand		Demand		Demand	
Producer	←	Wholesaler	←	**Retailer**	←	consumer
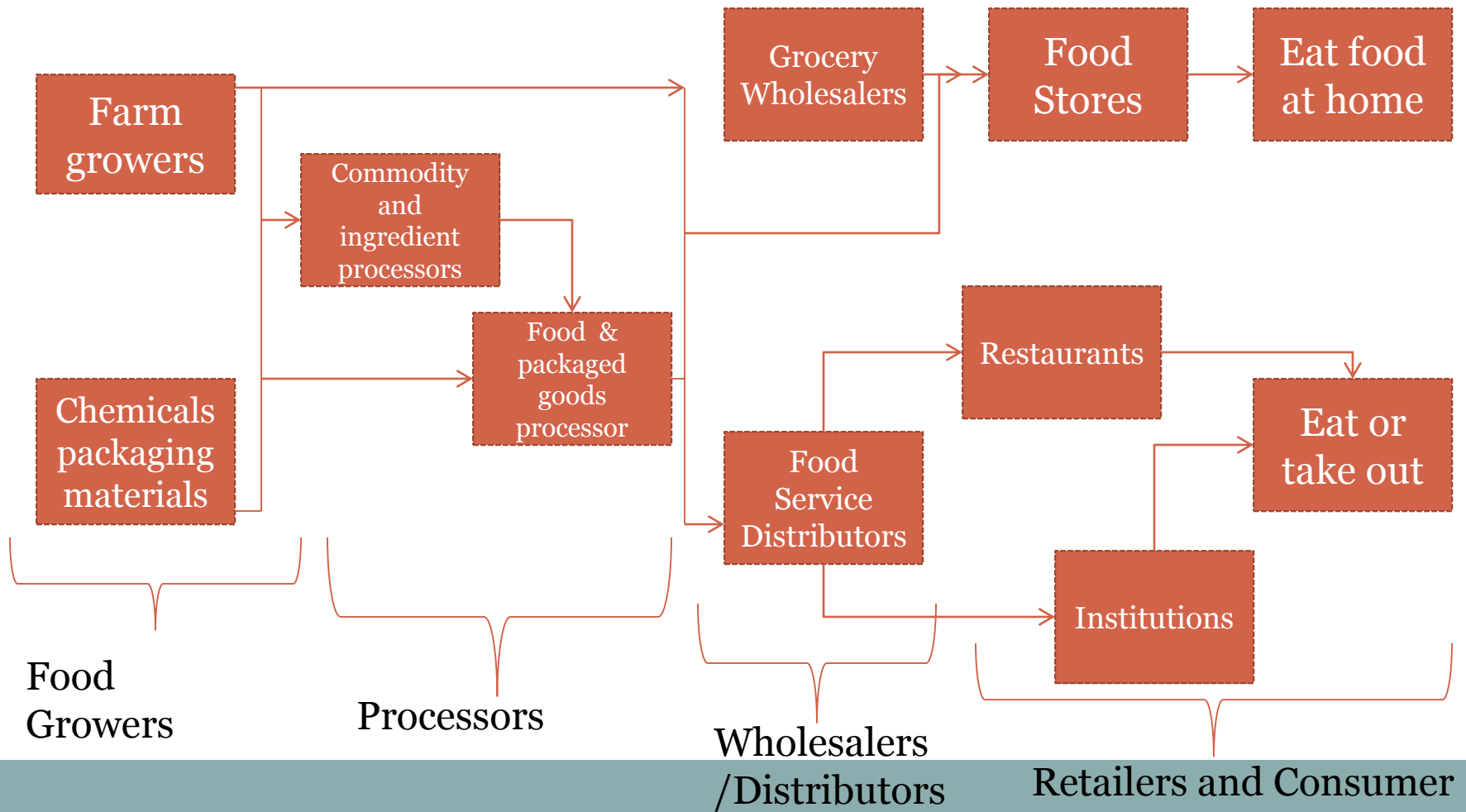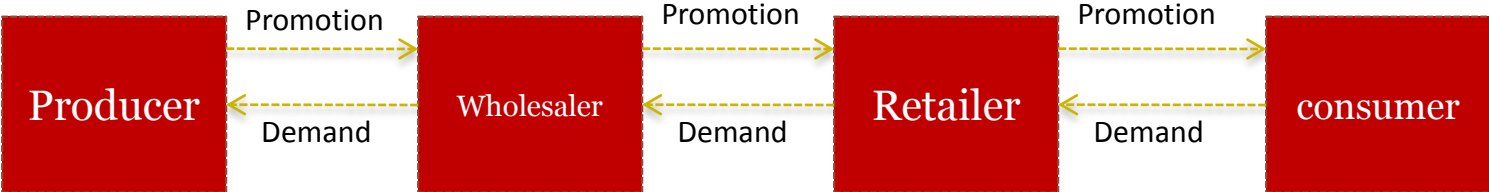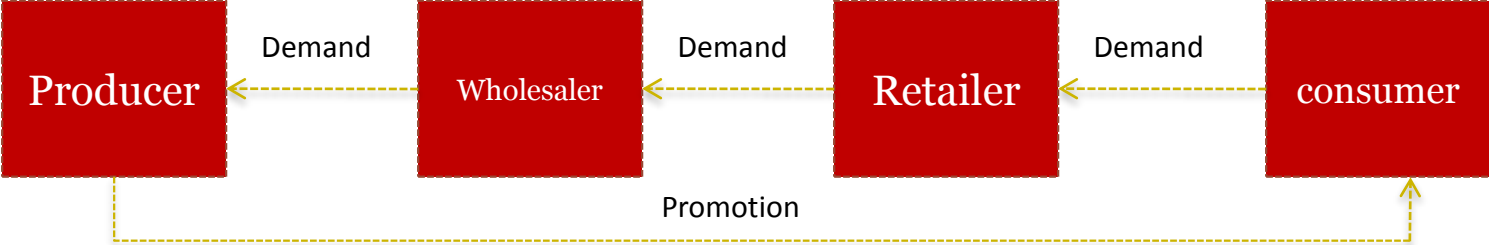
Promotion

Functions Performed by Intermediaries

Transactional functions

Logistical functions

Facilitating functions

Marketing Channel Activities

- Physical Possession
- Ownership
- Promotion
- Negotiation
- Financing/Risking
- Ordering
- Payment

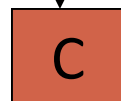| Physical Possession Flow	Ownership Flow	Promotion Flow	Negotiation Flow	Financing Flow	Risking Flow	Ordering Flow	Payment Flow
M	M	M	M	M	M	M	M
		AdA		FI			FI
TP			TP				
W	W	W	W	W	W	W	W
R	R	R	R	R	R	R	R
C	C	C	C	C	C	C	C
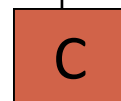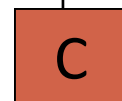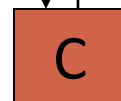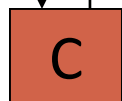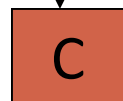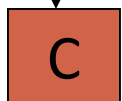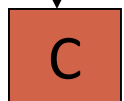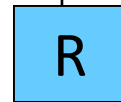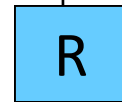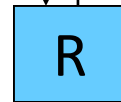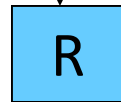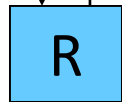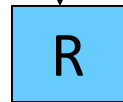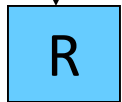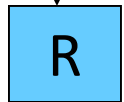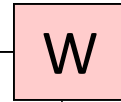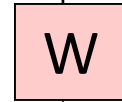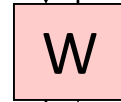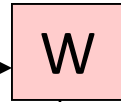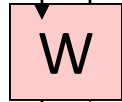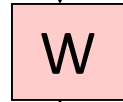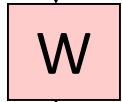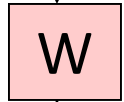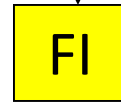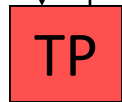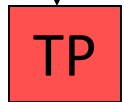
Five Marketing Functions in an Automobile Channel

Physical Function
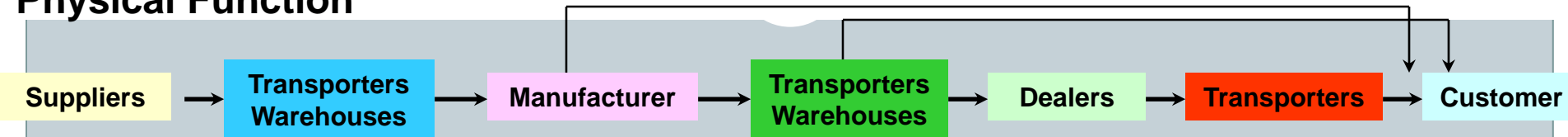
Suppliers → Transporters Warehouses → Manufacturer → Transporters Warehouses → Dealers → Transporters → Customer

Title Function

Suppliers → Manufacturer → Dealers → Customer

Payment Function

Suppliers ← Banks ← Manufacturer ← Banks ← Dealers ← Banks ← Customer

Information Function

Suppliers ↔ Transporters Warehouses Banks ↔ Manufacturer ↔ Transporters Warehouses Banks ↔ Dealers ↔ Transporters Banks ↔ Customer

Promotion Function

Suppliers → Advertising Agency → Manufacturer → Advertising Agency → Dealers → Customer
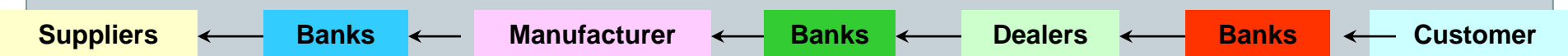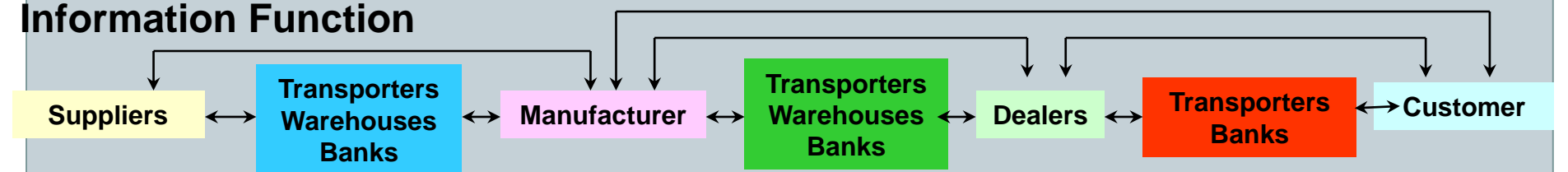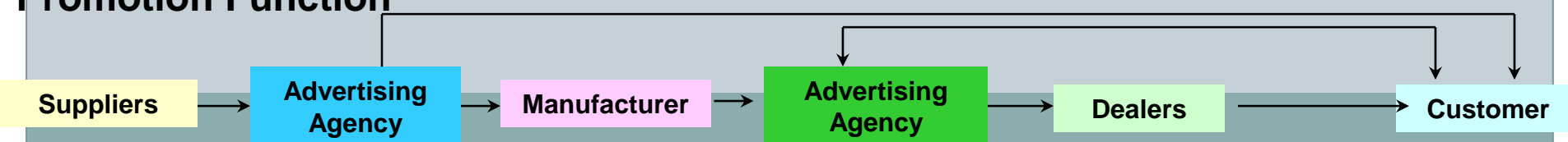
Segmenting for Marketing Channel Design

- End user Channel preferences
- Service Outputs
- Segmenting the Market by Service Output Demands
- Meeting Service Output Demands
- The role of service output demand analysis in Marketing Channel Design
- Using the Service output Demand Template

Customer Analysis

Customer Group

— Institutions

— Restaurants

— Households

Gas   Electricity   Charcoal   Technology

Baking

Boiling

Reheating

Customer Need

Three dimensional market definition of cooking appliances

Consumers Buying Cycle

ZMOT

FMOT

Three Predictions

ZMOT: The battle will shift to "Between Stimulus & Store"

MOBILE: Will be the key user interface

SHOPPER MARKETING: Will go digital

The First
Moment of Truth

End User Channel Preference

Titan Watches: Stylish=self expression

- Classy Image
- Large number of options
- Shopping experience

Eureka Forbes

- Vacuum Cleaner was not so accepted domestic appliance.
- Consumer education was important
- Company used direct selling as distribution option

Winning is Tough at the First Moment of Truth

Traditional Brand Action Model

Stimulus	1st Moment of Truth (FMOT)	2nd Moment of Truth: (SMOT)
She sees a TV ad for your product	She goes to her local store	She tries your product
(Agency)	(Sales)	(R&D)
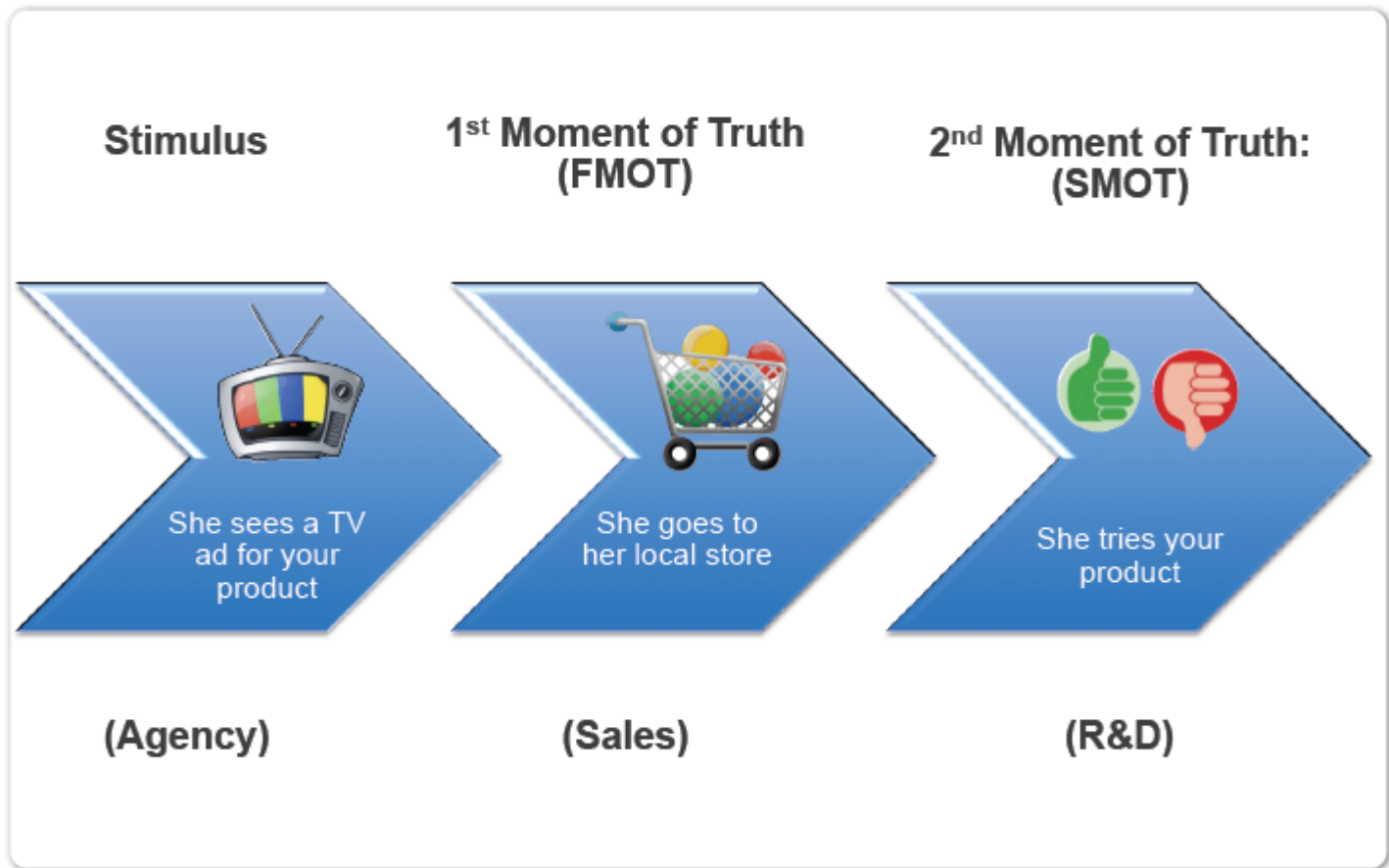
Brand Action Model of the Future

Stimulus	Zero Moment of Truth:	FMOT	SMOT

She sees a TV ad for your brand

She goes online to read reviews, find deals, and locate your product

She goes to her local store

She tries your product…

… and posts her reaction to 200 online friends

Which becomes the next person's ZMOT
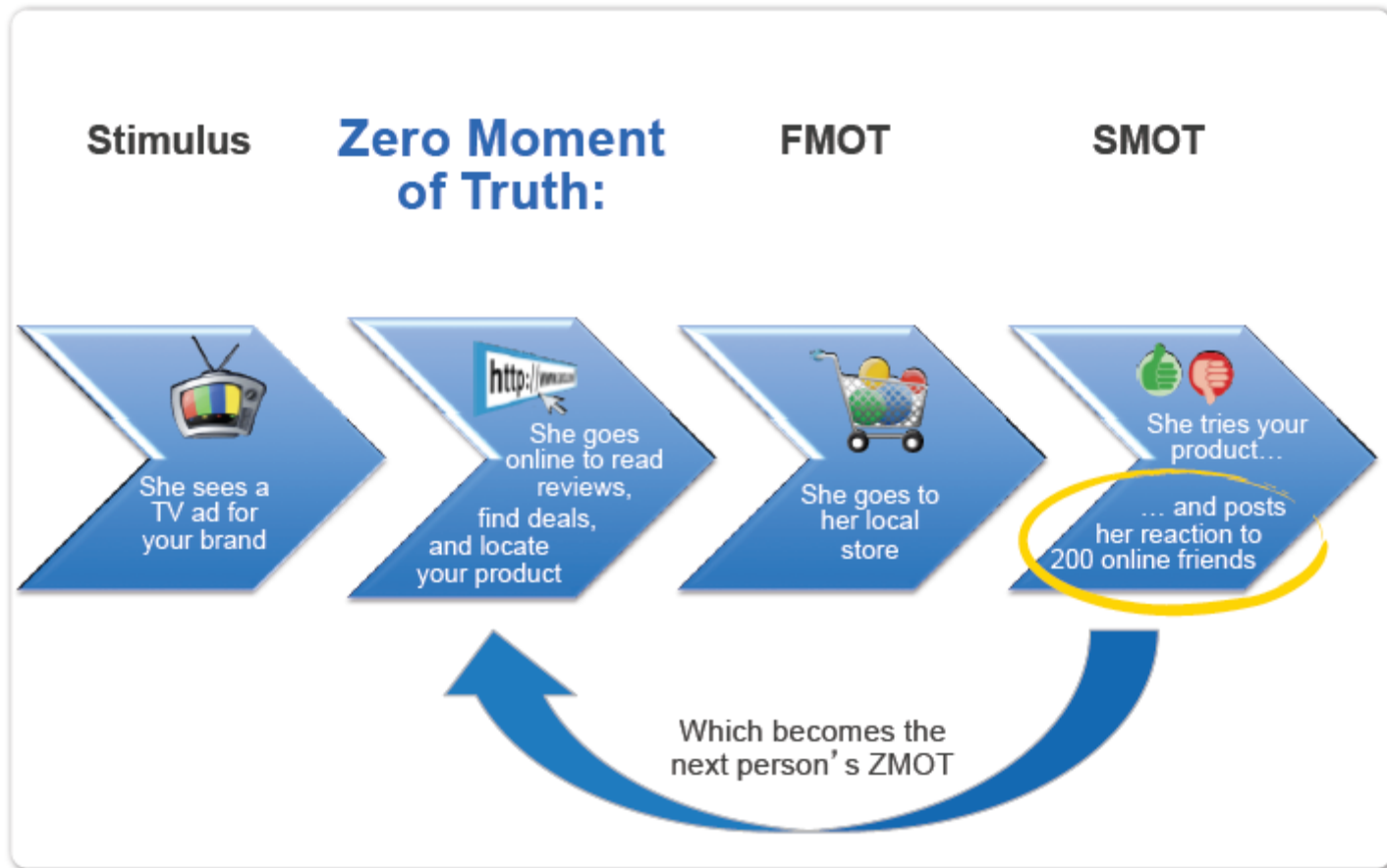
Bucklin Framework

- This framework proposes that the channel should be designed in such a way that it reduces end users :

1. Search
2. Waiting time
3. Storage
4. Cost

The model works on the assumption that price and physical attributes of directly competing products are same.

Bucklin's four Generic Service Outputs

- Bulk Breaking
- Spatial Convenience
- Waiting or delivery time
- Product Variety
- Customer Service
- Information provision
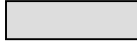
CHANNEL SEGMENTS FOR A NEW HIGH-TECHNOLOGY PRODUCT

Respondents allocated 100 points among the following supplier–provided service outputs according to their importance to their company:

| | = Greatest Discriminating Attributes | | | = Additional Important Attributes |

Possible Service Output Priorities	Lowest Total Cost/ Pre-Sales Info Segment	Responsive Support/ Post-Sales Segment	Full-Service Relationship Segment	References and Credentials Segment
References and Credentials	5	4	6	**25**
Financial Stability and Longevity	4	4	5	**16**
Product Demonstrations & Trials	11	10	8	20
Proactive Advice & Consulting	10	9	8	10
Responsive Assistance During Decision Process	14	9	10	6
One-Stop Solution	4	1	**18**	3
Lowest Price	**32**	8	8	6
Installation and Training Support	10	15	12	10
Responsive Problem Solving After Sale	8	**29**	10	3
Ongoing Relationship with a Supplier	1	11	**15**	1
Total	100	100	100	100
% Respondents	16%	13%	61%	10%

Insights

- Marketing Channels serving any of the specific segments will be required to deliver more of some service outputs than others.

- Any one channel solutions likely will not be able to satisfy the needs of all the segments.

- Lowest price is highly valued only in one segment (the lowest cost segment, representing only 16% of respondents), suggesting that the majority of the market is not driven primarily by price considerations.

- All segments value installation and training support at least moderately highly, therefore it must be part of the design for all segments.

Consumer Channel Design

Number of Levels

Zero-level — Producer ⟶ Consumer

One-level — Producer ⟶ Retailer ⟶ Consumer

Two-level — Producer ⟶ Wholesaler ⟶ Retailer ⟶ Consumer

Three-level — Producer ⟶ Wholesaler ⟶ Agent ⟶ Retailer ⟶ Consumer
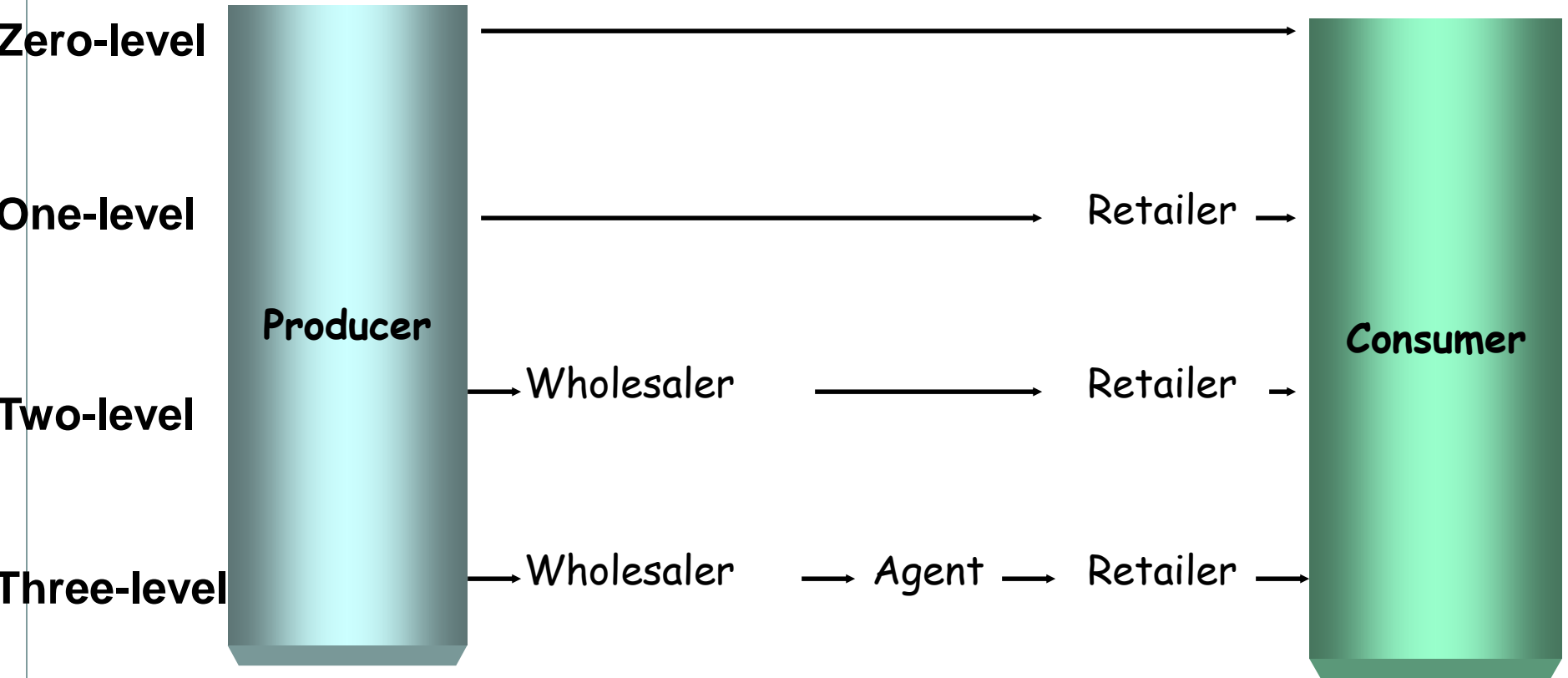
Industrial Channel Design

Number of Levels

Zero-level

One-level

Two-level

Three-level

Manufacturer

Industrial Distributor

Manufacturer's Representative

Industrial Distributor

Manufacturer's Salesforce

Industrial Distributor

Installer

Industrial User
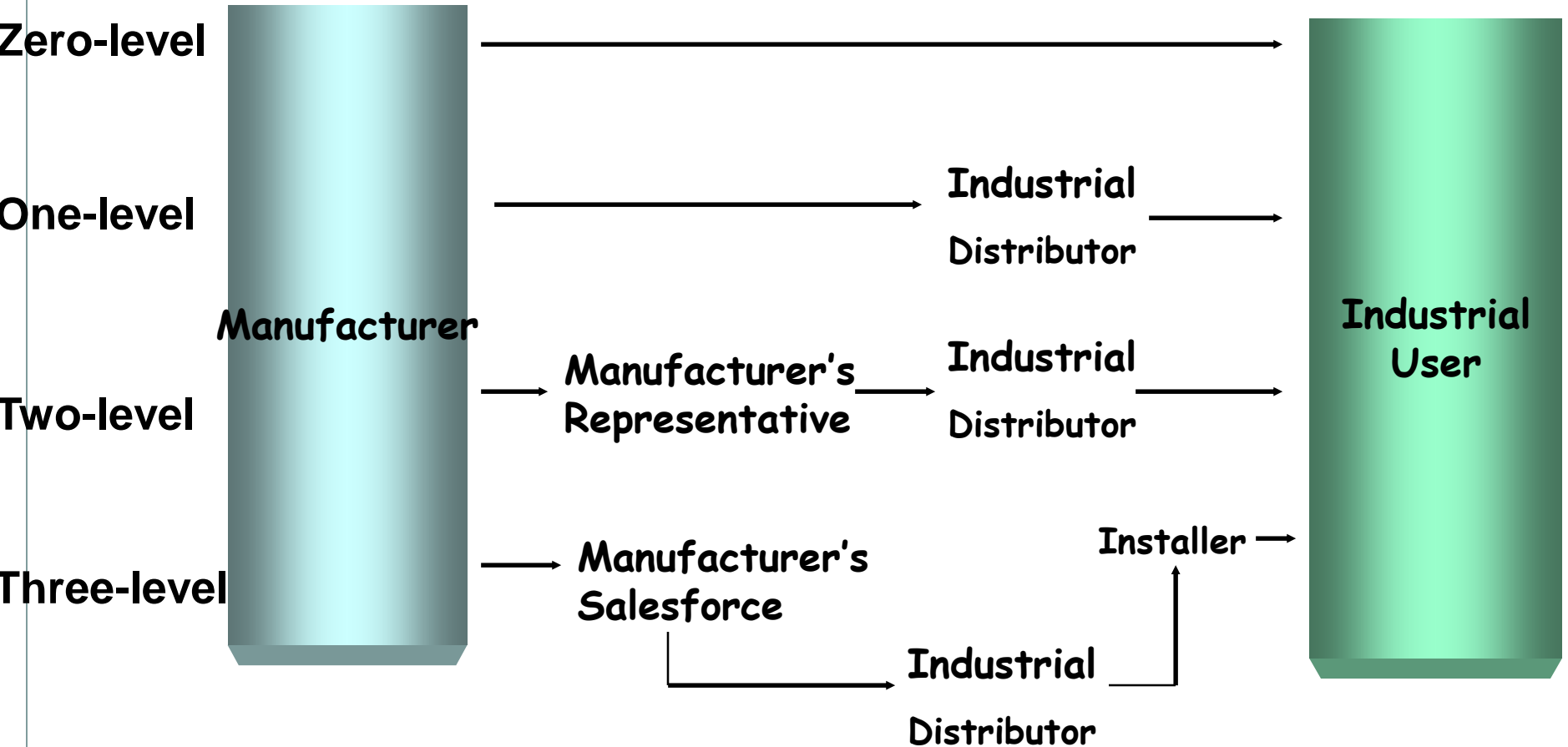
Common marketing channels for consumer goods and services

Common marketing channels for business goods and services

Representative electronic marketing channels
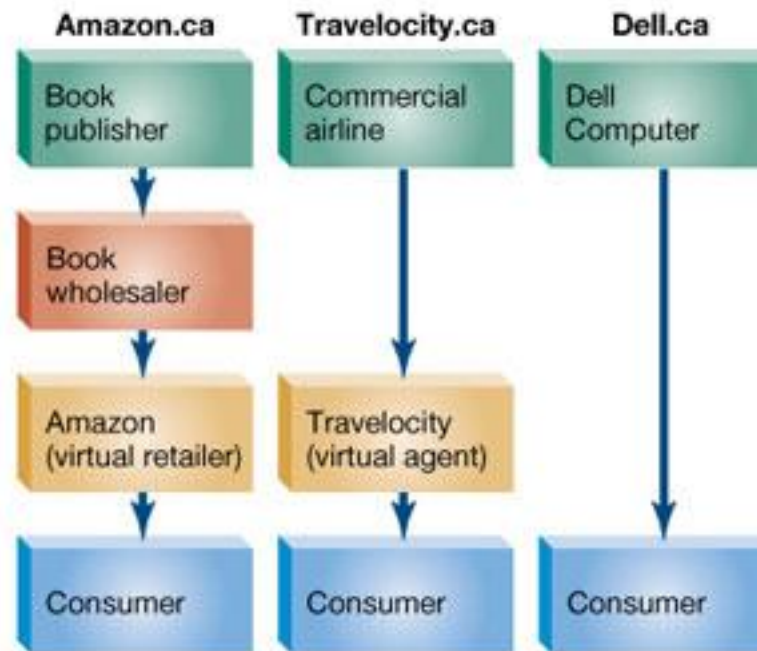
Representative electronic marketing channels

IDEAL CHANNEL SYSTEM FOR BUSINESS–TO–BUSINESS SEGMENTS BUYING A NEW HIGH–TECHNOLOGY PRODUCT
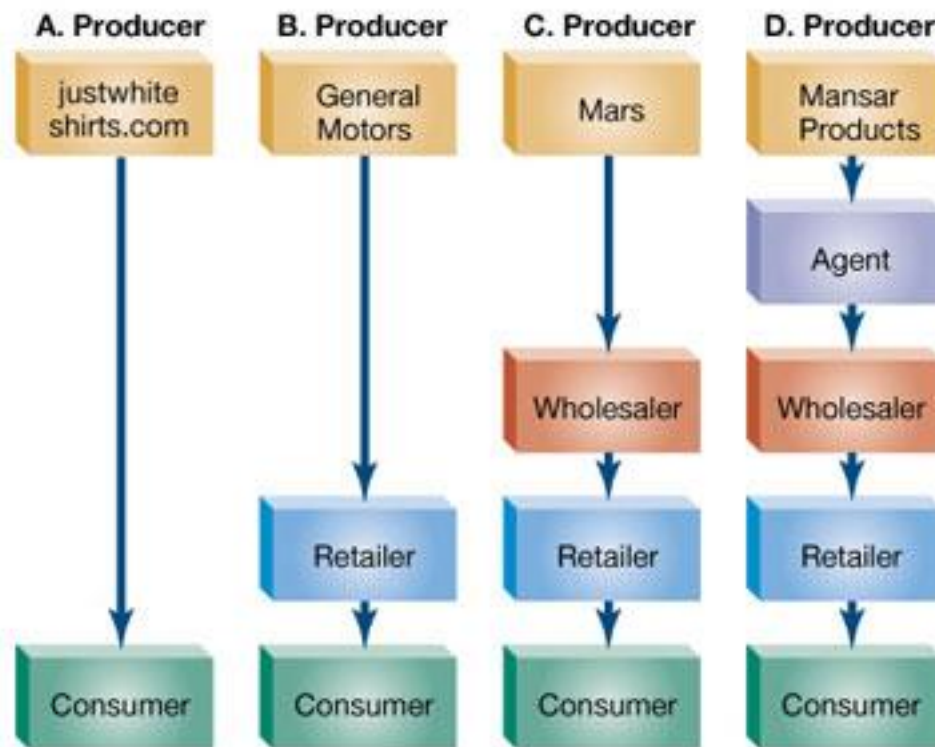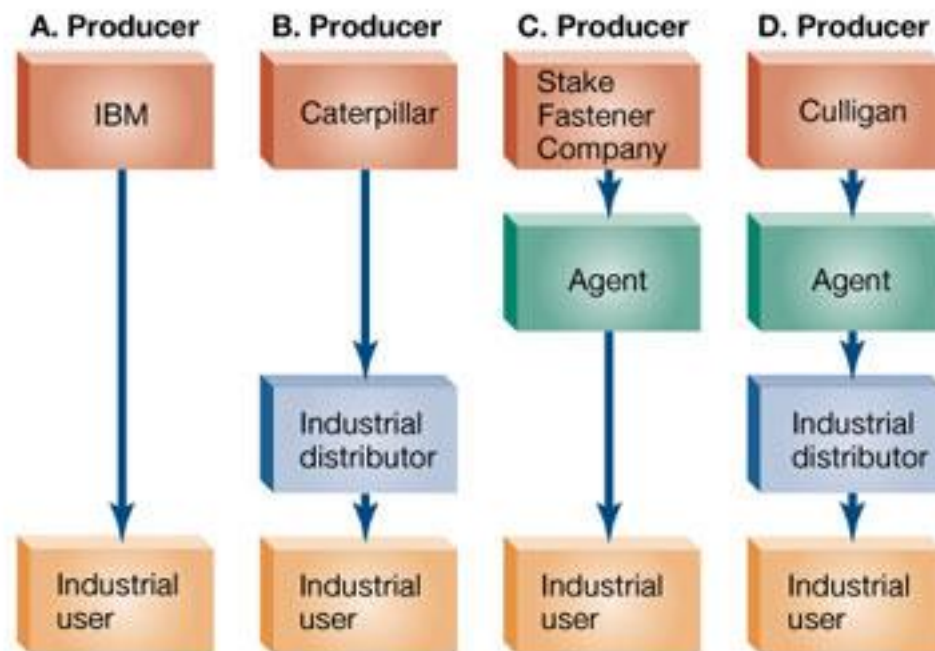
The Role of Service Output Demand Analysis in Marketing Channel Design

Assess segment attractiveness

Target a subset of the segments identified

Customize the marketing channel system solution to sell to each target market

King Koil Spring Mattress: Entry to India 2007

Amelia

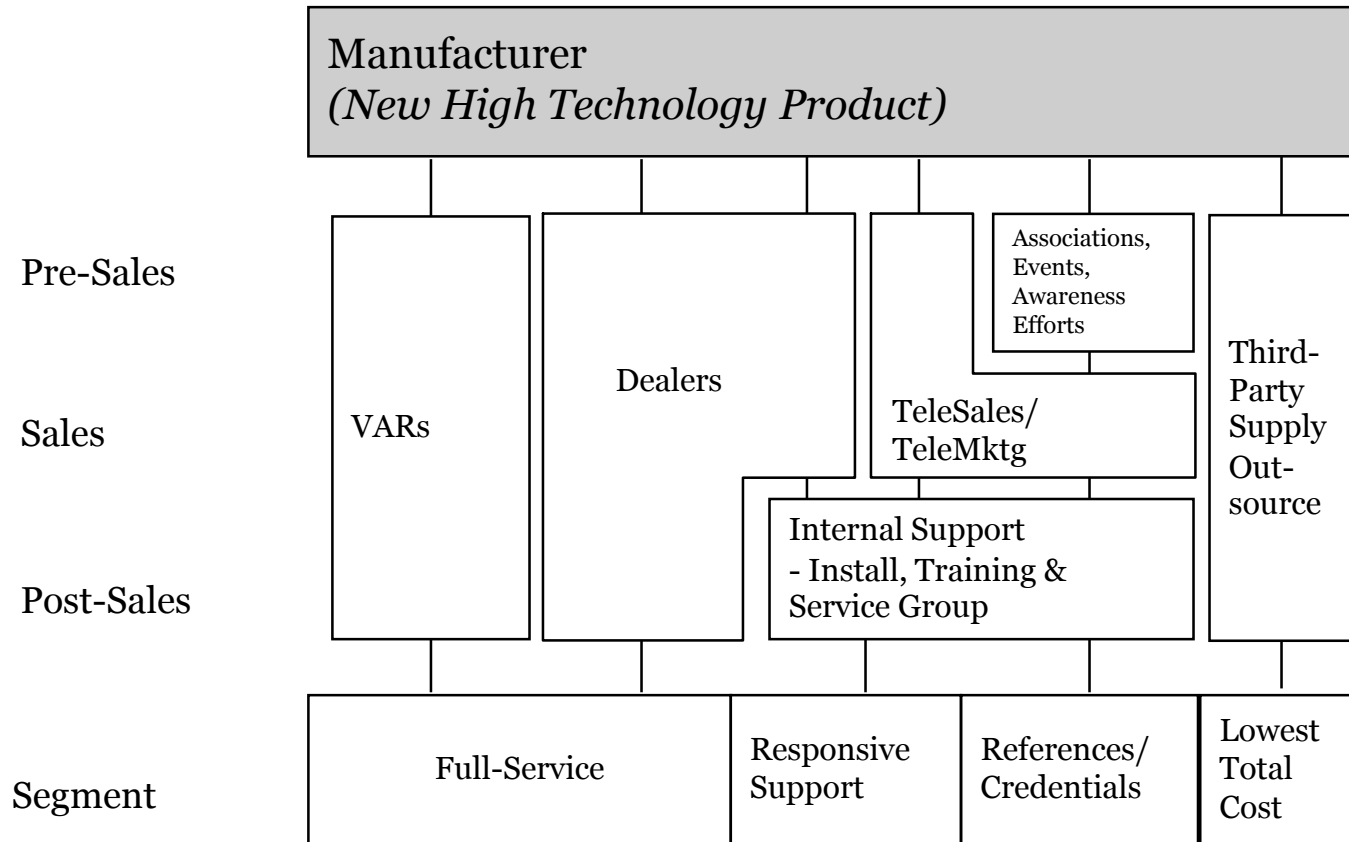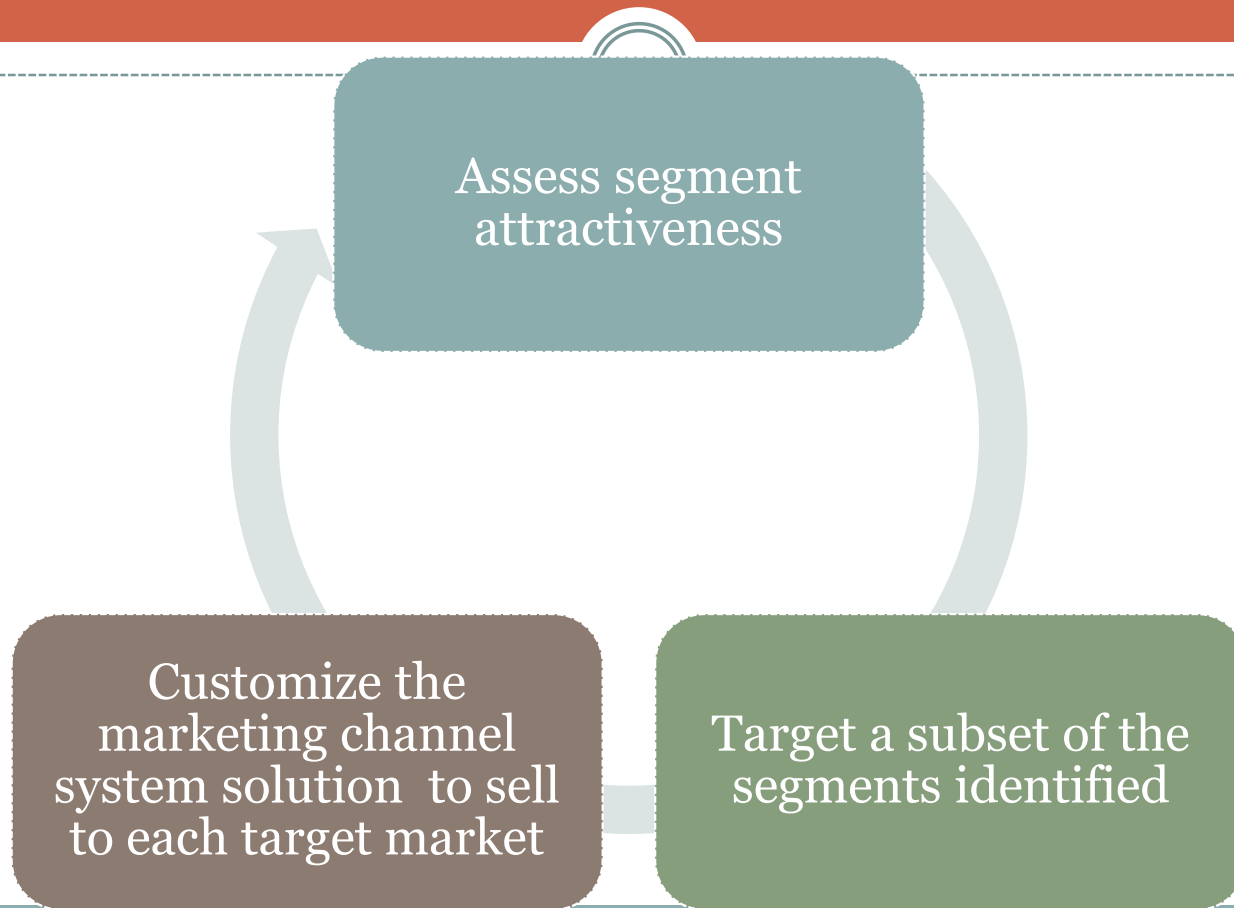Service output Demand of the distribution channel

Provide first hand experience of the product quality and explain the product features to the potential customer

- Traditionally in India mattress is sold through dealers (retailers).
- Market size was estimated as Rs.27.50 billion
- 73% was organized sector- Kurlon being the market leader
- Spring mattress was limited to unorganized sector, and were mostly custom made by high income group.
- This segment the company felt would require to see the product features and to feel the benefit.

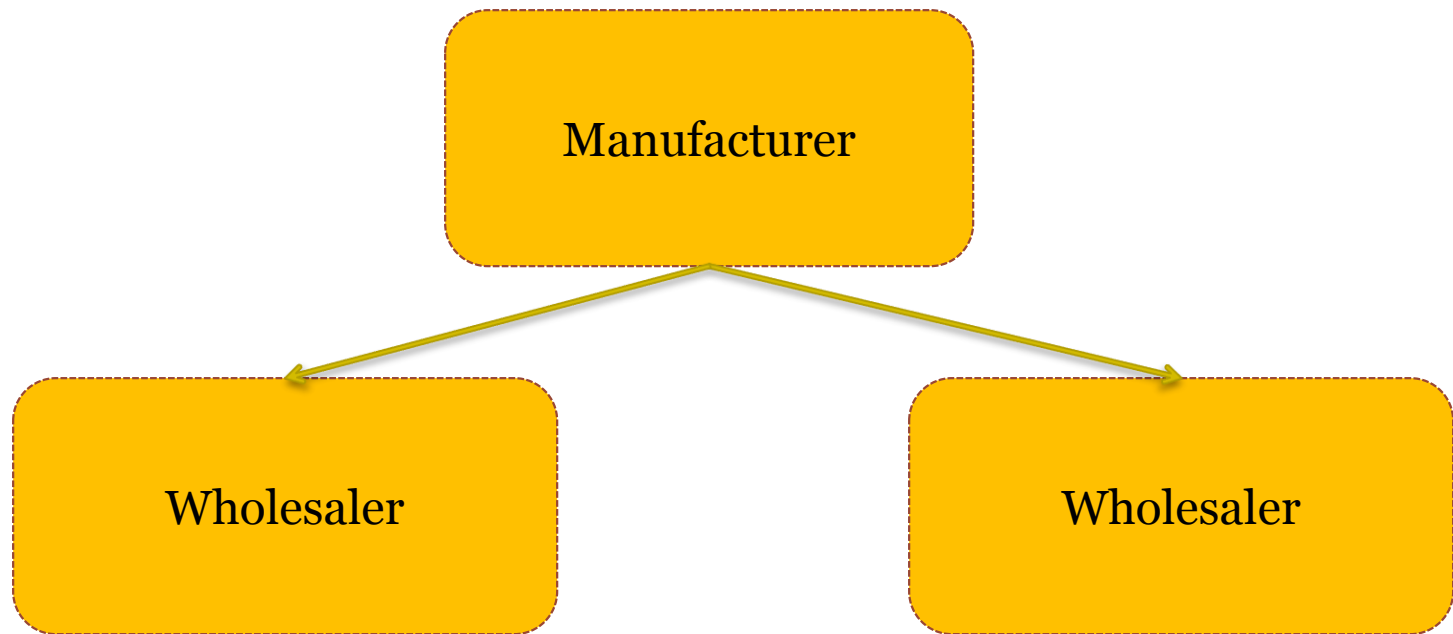They set up eight showrooms in Mumbai, Bangalore, Pune, Nasik, and Delhi and reached breakeven volumes in first two months

Exclusive Distribution

Manufacturer
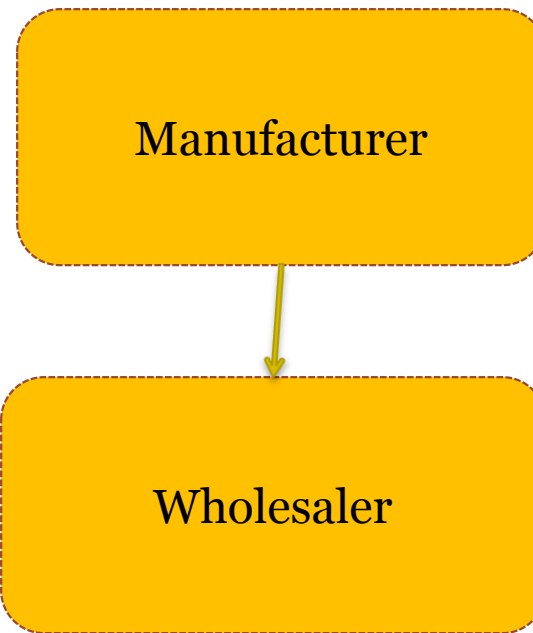
Wholesaler

Only wholesaler in market area with manufacturer's goods and services

Selective Distribution

Manufacturer

Wholesaler

Wholesaler

Moderate number of wholesalers used in each market area

Intensive Distribution
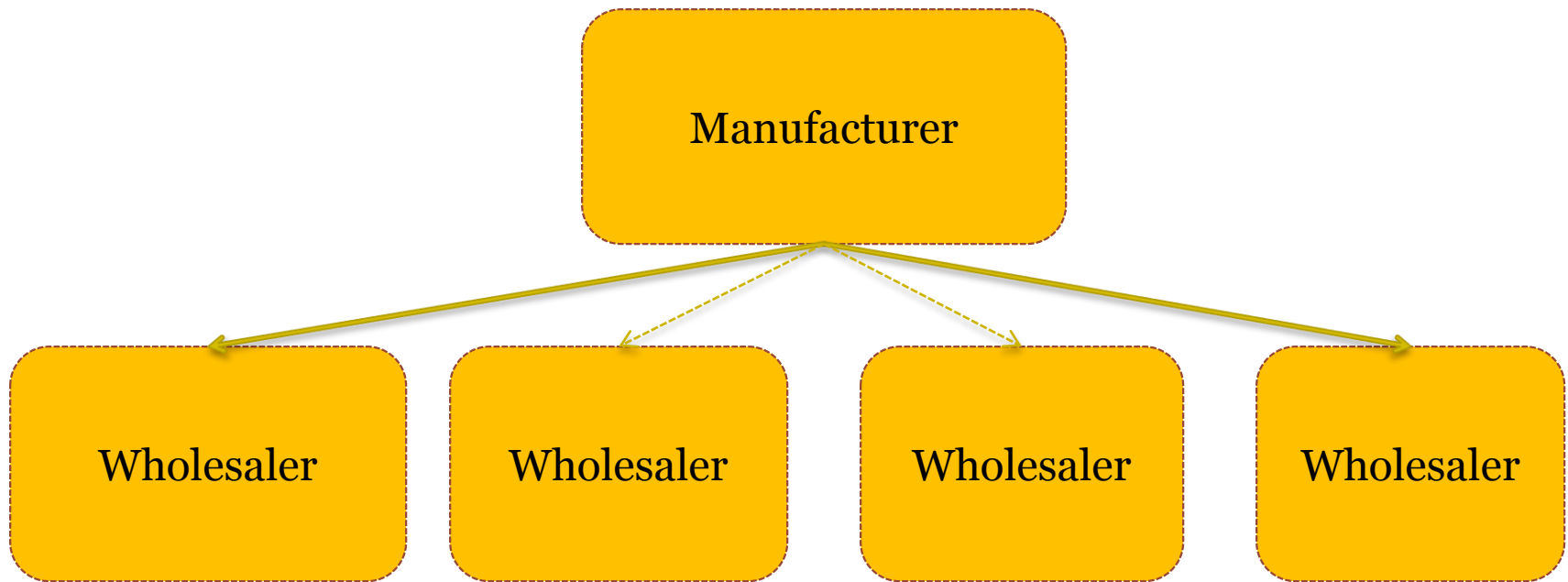
Goods and Services offered to all channel members meeting the credit standards

Type of Distribution?

- HUL?

- Proctor and Gamble?

- Avon?

- Tupperware?

- Dell?

- Harley Davidson?

- BMW?

- Maruti?

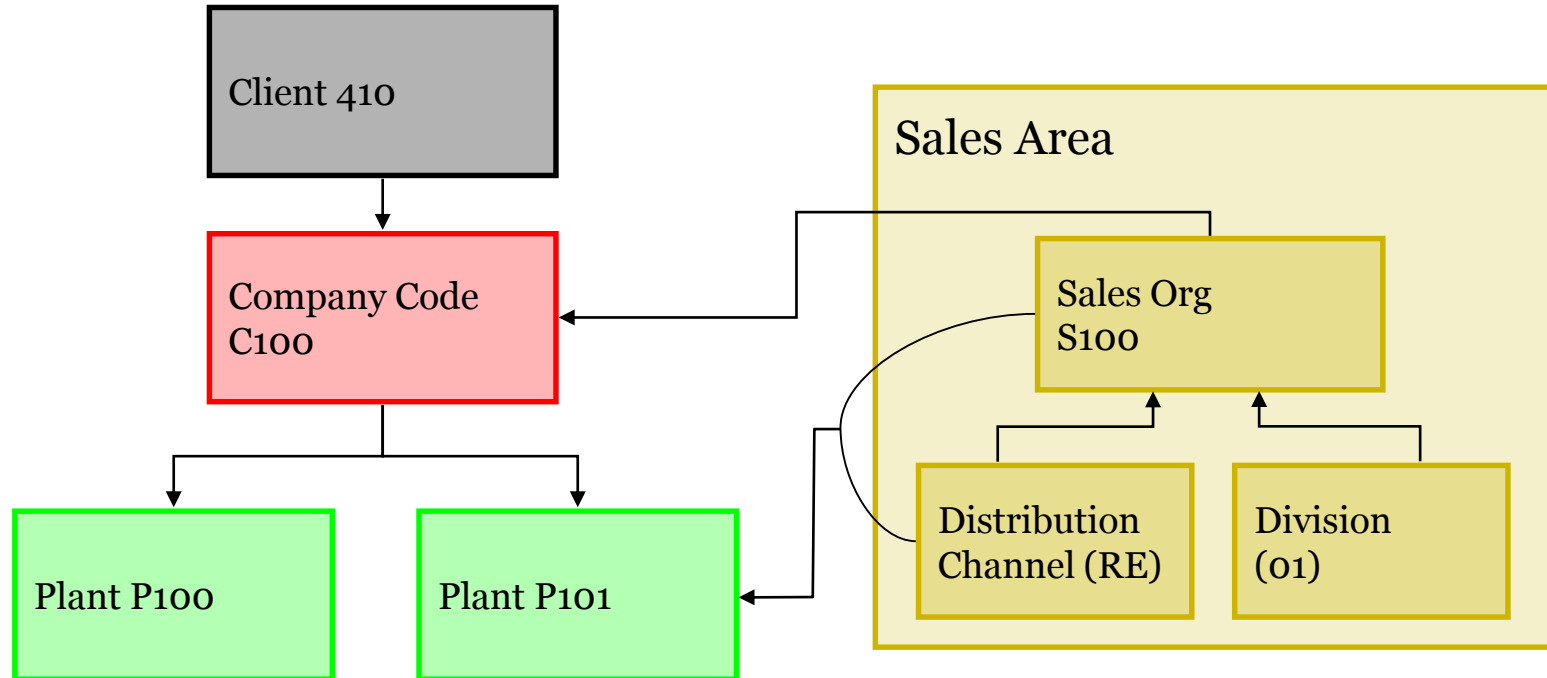- Hyundai?

Sales and Distribution Organizational Structure

S&D Structure

- Client
- Company Code
- Sales Area
  - Sales Organization
  - Distribution Channel
  - Division
- Plant
- Shipping Point
- Loading Point
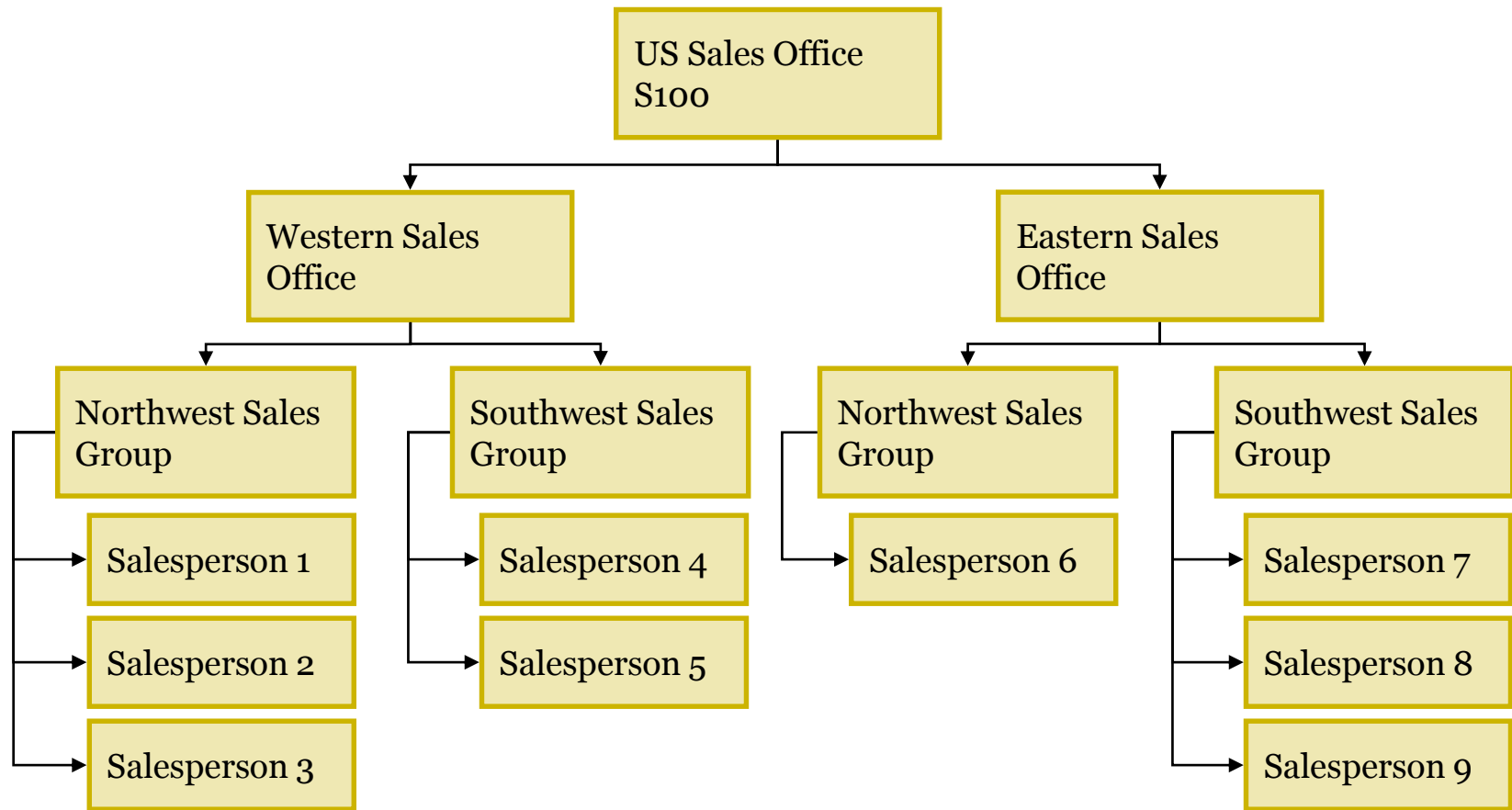
Internal Sales Structure
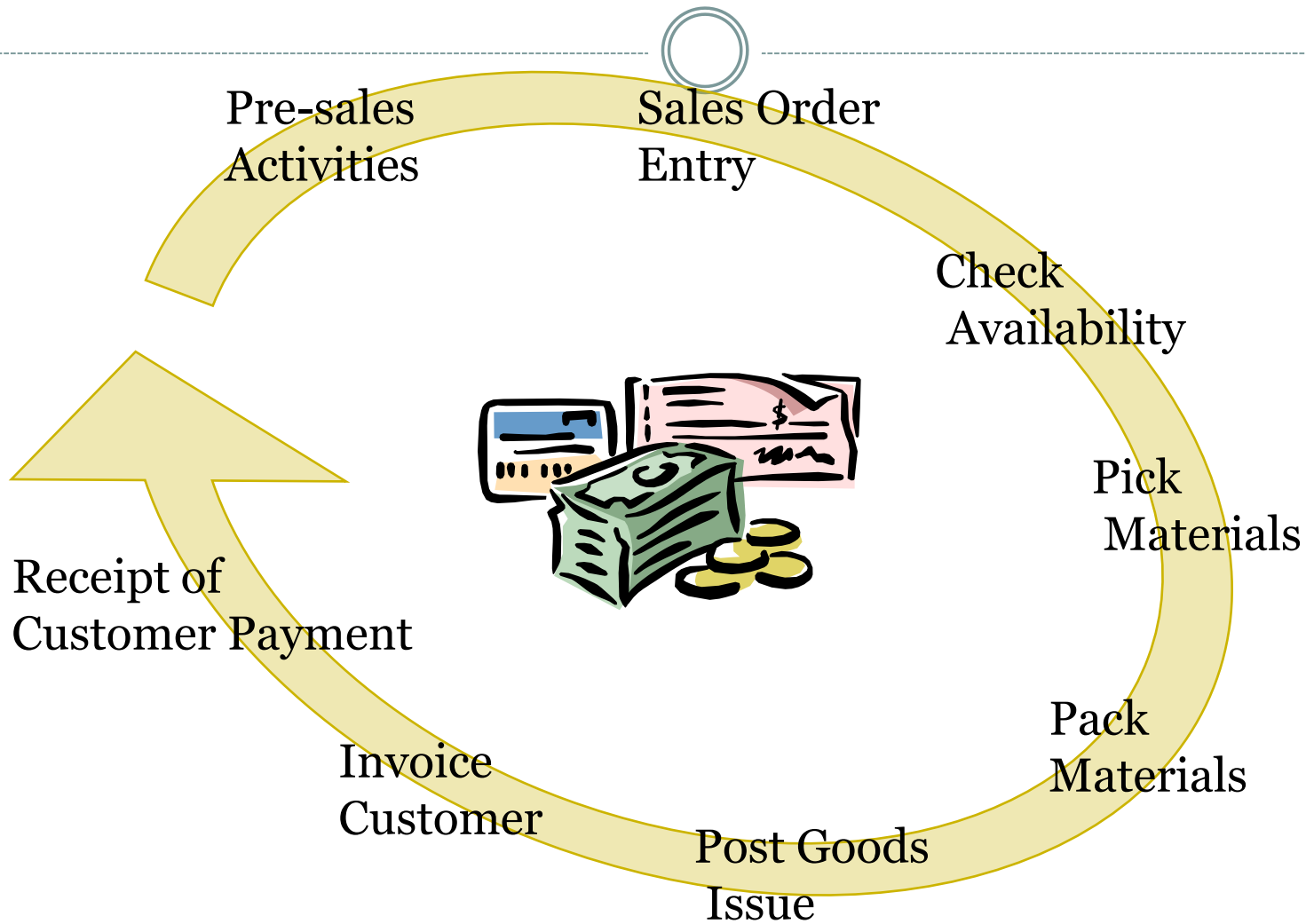
- Sales Offices
- Sales Groups
- Salesperson

Structure for Sales Order Processing

Internal Sales Structure

The Sales Process

Return Channel

Cost and Scope of Product Returns

- The value of returned goods is close to Rs.60-100 million annually in the country.

- Indian companies are estimated to spend from Rs.35 million to more than Rs.40 million per year on reverse logistics.

- The average company takes 30-70 days to move a returned product back into the market.

- The estimated number of packages returned in 2004 is 500 million.

What happens to the Returned products

- Returned goods are send to central processing facility to be repackaged and sold as new products
- Remanufacturing or refurbishing them before selling
- Selling to a broker
- Selling at factory outlet
- Dumping them as garbage
- Donating them to charity

POSSIBLE PATHWAYS FOR RETURNED PRODUCT
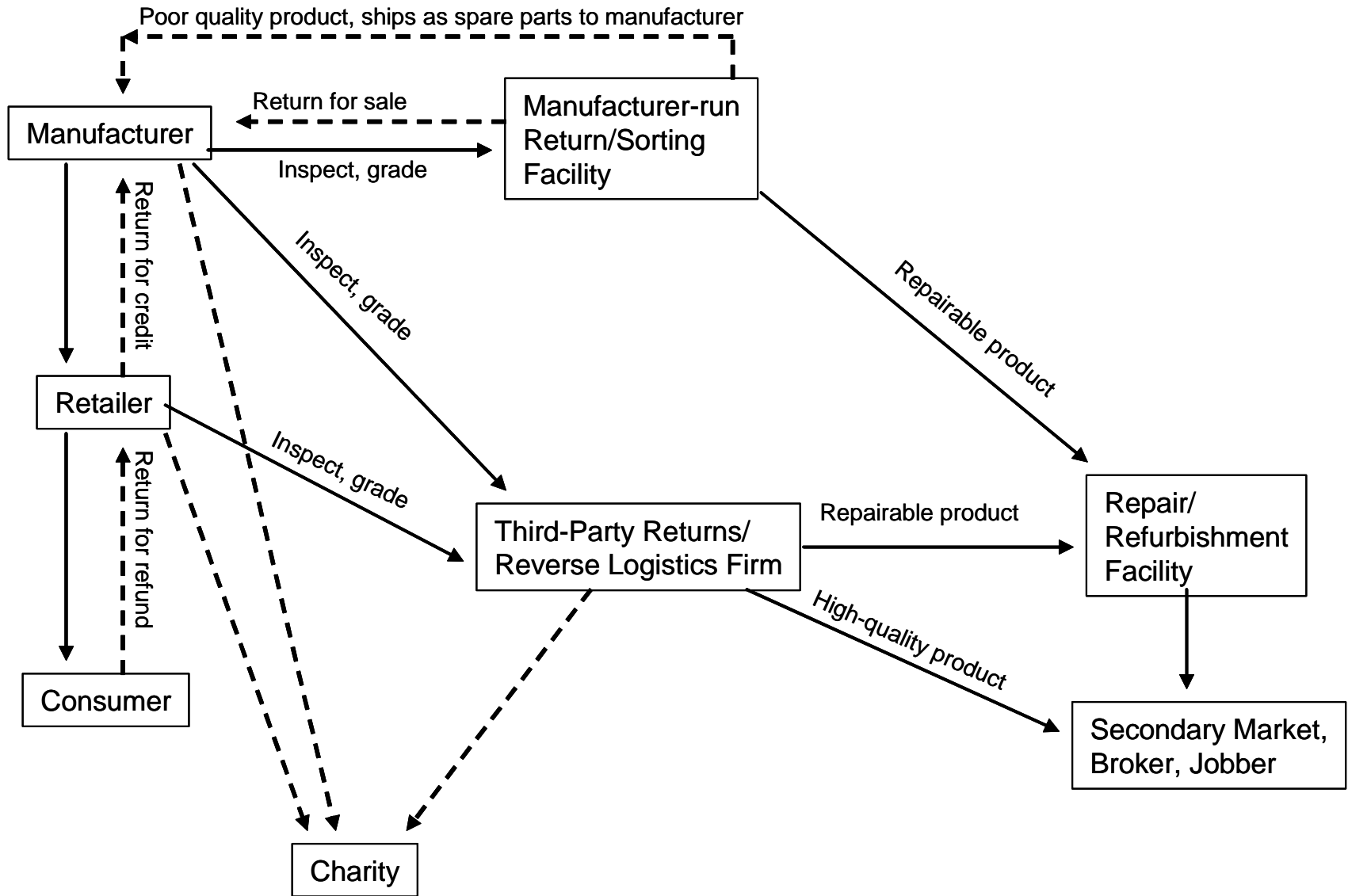
Key: solid lines denote product to be salvaged for subsequent revenue.
Dotted lines denote non–revenue–producing product flows.