Warwick Summer School

Dr Simon Jones

Channels to Market

Objectives

- Channels to market
- Disintermediation
- Changing channels to market

Supply Chains and the Value Delivery Network

Upstream partners are firms that supply raw materials, components, parts, information, finances, and expertise needed to create a product or service

Downstream partners include the marketing channels of distribution channels that look toward the customer, including retailers and wholesalers

Supply Chains and the Value Delivery Network

Supply chain "make and sell" view includes the firms raw materials, productive inputs and factory capacity

Demand chain "sense and respond" view suggest that planning starts with the needs of the target customer

The nature and importance of marketing channels

Marketing channel (distribution channel) is a set of independent organisations that help make a product or service available for use or consumption by the consumer or business user

The nature and importance of marketing channels - How channel members and value

Transform the assortments of products into assortments wanted by consumers

Bridge the major time, place, and possession gaps that separate goods and services from users

The nature and importance of marketing channels - How channel members and value

- Information
- Promotion
- Contact
- Matching
- Negotiation
- Physical Distribution
- Financing
- Risk Taking

Channel behaviour And organisation

Marketing channels consist of firms that have partnered for the common good for each member playing a specialised role

Channel behaviour And organisation

Channel conflict refers to disagreement among channel members of the goals, roles, and rewards

- horizontal conflict
- vertical conflict

Vertical Integration of Channels

- Why might a marketer decide to integrate its channel to market?
- What are the benefits?
- What are the disadvantages of doing so?

Channel behaviour And organisation
Vertical marketing systems

Conventional distribution systems consist of one or more independent producers, wholesalers, and retailers, each separate business seeking to maximise its own profits, perhaps even at the expense of profits for the system as a whole

Channel behaviour And organisation Vertical marketing systems

Vertical marketing systems (VMSs) provide channel leadership consist of producers, wholesalers, and retailers acting as a unified system

- corporate marketing systems
- contractual marking systems
- administered marking systems

Channel behaviour And organisation
Vertical marketing systems

Vertical marketing systems (VMSs) provide channel leadership consist of producers, wholesalers, and retailers acting as a unified system

- corporate marketing systems
- contractual marking systems
- administered marking systems

Channel behaviour And organisation
Vertical marketing systems

Corporate vertical marketing systems combine successive stages of production and distribution under single ownership

Channel behaviour And organisation
Vertical marketing systems

Contractual vertical marketing systems consist of independent firms at different levels of production and distribution who join together through contracts

Place or Channels to Market

- Where consumers buy products.
- There are many different and varying places people can purchase goods.
- Marketers call these places channels to market.
- They serve for physical distribution, logistical and facilitating functions

Place or Channels to Market

- Where consumers buy products.
- There are many different and varying places people can purchase goods.
- Marketers call these places channels to market.
- They serve for physical distribution, logistical and facilitating functions

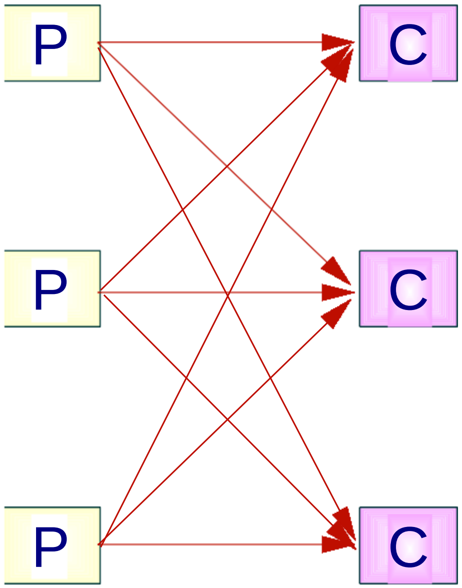
Marketing Channels

- Intermediaries used to bring the goods and services to the marketplace - these intermediaries are connected so as to form a marketing channel.

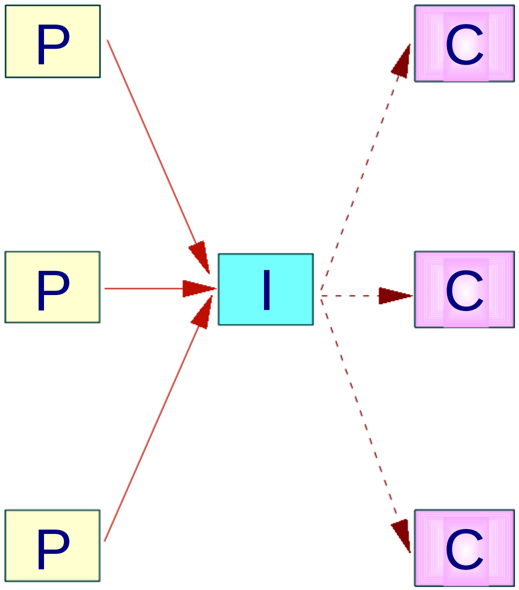
- Length of Channel
  - Can vary from <u>no intermediary</u> at all (Direct Marketing channel) to <u>several intermediaries</u>
  - Types of intermediaries include Wholesalers, Retailers, Agents, Distributors, etc.

Direct and indirect distribution

P= Producer
I = Intermediary
C = Customer



Direct distribution



Indirect distribution

Functions of a Marketing Channel

- Get product from manufacturers to end users
- Take title / buy goods
- Hold Stock
- Matching
- Location
- Financing
- After Sales Service
- Selling
- Advice

Types of channels

- Wholesalers/Cash and carries/Membership clubs: Sell to businesses
- Agents or Brokers: Do not take title
- Retailers: Sell to consumers
- “Sheds”
- Franchises
- Auctions
- Vending machines

Can you identify examples of these different types of channel?

- Wholesalers/Cash and carries/Membership clubs: Sell to businesses
- Agents or Brokers: Do not take title
- Retailers: Sell to consumers
- Multiple "Sheds"
- Franchises
- Auctions

- What difference do each of these channels make to marketers' ability to deliver value to customers?

Types of Channel

Franchise Agreements

- McDonald's has been a franchising company since 1955 and has relied on its franchisees to play a major role in the system's success. McDonald's remains committed to franchising as a predominant way of doing business.
- Today, the McDonald's franchise is the leading global food service retailer with more than 35,000 restaurants located in more than 100 countries. There are nearly 13,000 McDonald's franchises within the United States, over 6,000 company-owned McDonald's locations, and over 17,000 franchises outside the U.S.

Franchise Agreements

At McDonald's, we believe choosing the right franchisees to be part of the McDonald's system is a key factor in our success as a brand.

For us, it's about placing responsibility for the day-to-day operations of our franchised restaurants in capable hands, and working collaboratively with franchisees to grow together.

For you, it's a unique opportunity to take charge of a business that has behind it a brand trusted by customers, as well as proven, sophisticated systems, and an excellent framework of support. More than that, it's an opportunity to work with your team to be part of your local community.

Compare and Contrast the Pros and Cons of…

- Franchise vs
- Ownership

Market Coverage

Selective

Mass Market

- **Exclusive**

Exclusive

Market Coverage

- Mass Market: to cover as many targets / segments as possible as intensively as possible
- Selective: To target market less intensively
- Exclusive: Limited coverage of market / perhaps one store or authorized dealer

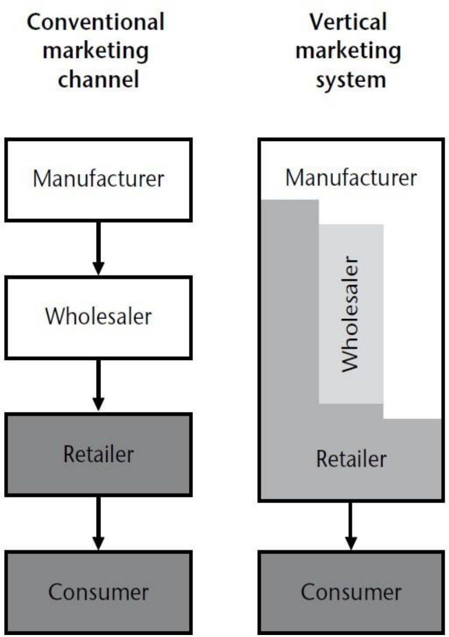
Channel organisation

Conventional distribution channels

Independent, but working together

Vertical market systems

'distribution channel structures in which producers, wholesalers, and retailers act as a unified system. One channel member owns the others, has contracts with them, or wields so much power that they must all cooperate'



Vertical Integration of Channels

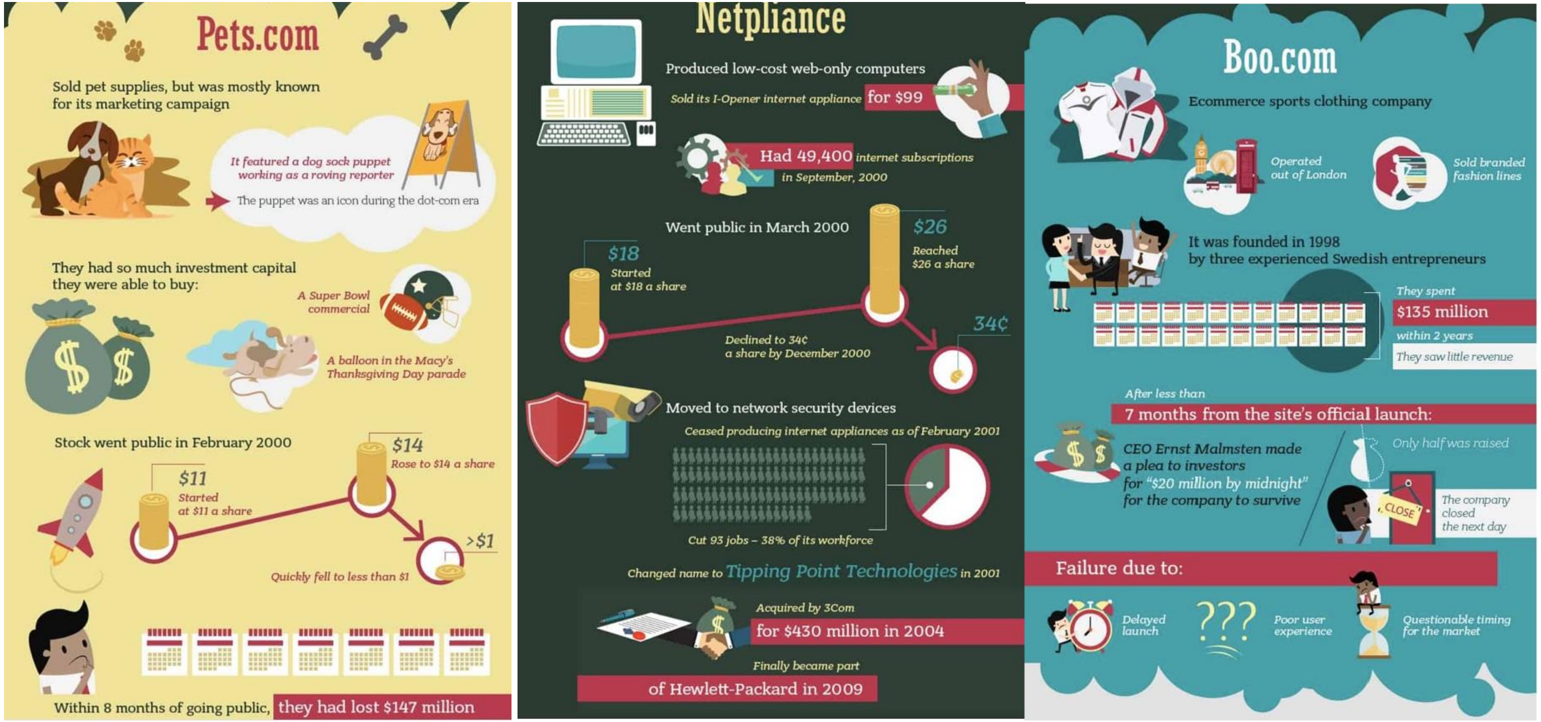
- Disney: forward integration from 1980s, setting up its own retail stores
- Disney buys Pixar. Steve Jobs suggests that the failing Disney stores need to be an "experience"
- Disney were concerned that meeting the characters in store would impact on numbers visiting theme parks
- Launch of "flagship" stores, not on every high street so that market not saturated.

The rise of Online Channels

- Lazer and Shaw (2001) New phenomenon of online channels. Dawn of a new era.

  The first dot-com bubble saw fortunes made and lost with surprising speed.
  "The dot-com bubble of the late 90s and early 2000s saw fortunes made and lost, sometimes with surprising speed. It also saw the foundation of the modern internet and the origins of some of the biggest names in tech. While many of these websites failed, they served as precursors to some of today's leading modern web companies". https://www.cbinsights.com/research/dot-com-bubble-companies/

Disintermediation and Reintermediation



Disintermediation

- Pros

- Cons

Does retail (ie: high street and mall stores) have a future beyond the pandemic?

- Yes
- No

Online Supply Chains

Online supply chains refer to the interconnected network of activities and processes involved in the procurement, production, and distribution of goods and services through online channels. They encompass the entire lifecycle of a product, from sourcing raw materials to delivering the final product to the end customer, all facilitated through online platforms and technologies.

Online Supply Chains

Online supply chains offer several advantages over traditional supply chains, including increased speed and transparency, expanded market reach, reduced costs, and improved customer experience. However, they also present unique challenges such as cybersecurity risks, complex integration with various systems, and the need for efficient order fulfillment and last-mile delivery processes.

Online Supply Chain Components

E-Procurement: The process of sourcing and purchasing goods and services online. This includes identifying suppliers, comparing prices, negotiating contracts, and placing orders electronically.

Online Supply Chain Components

E-Commerce: The online platform where businesses showcase and sell their products or services to customers. E-commerce platforms enable transactions, handle payment processing, and provide a virtual storefront for businesses.

Online Supply Chain Components

Inventory Management: Online supply chains employ digital systems to track and manage inventory levels across multiple locations. This helps optimize stock levels, ensure product availability, and minimize the risk of stockouts or overstocking.

Online Supply Chain Components

Order Processing: The digital processing of customer orders, which involves tasks such as order verification, order entry, and order fulfilment. Online supply chains often automate these processes to improve efficiency and reduce errors.

Online Supply Chain Components

Logistics and Fulfilment: Online supply chains rely on logistics and fulfilment services to manage the transportation, warehousing, and delivery of products. This includes selecting shipping carriers, coordinating deliveries, and providing shipment tracking information to customers.

Online Supply Chain Components

Reverse Logistics: The management of product returns and exchanges. Online businesses need processes in place to handle customer returns, issue refunds or exchanges, and manage the reverse flow of goods.

Online Supply Chain Components

Data Analytics: Online supply chains generate vast amounts of data, which can be analyzed to gain insights and improve operational efficiency. Data analytics helps identify trends, optimize inventory levels, forecast demand, and enhance overall supply chain performance amazon

Amazon

- Amazon founded 1994 in Seattle by Jeff Bezos
- Initially an online bookseller but diversified (1999)
- Acquired online sellers in UK and Germany in 1998
- Bought companies to improve data analysis and order fulfillment in early 2000s
- Merchant partnerships eg: with Toys R Us from 2000.
- Currently largest internet company in the world by revenue and second largest employer in USA

Discussion

- In what way have organisations such as Amazon changed the face of channels to market?
- Will Amazon continue to thrive?
- What, if anything, might change the dominance of firms such as Amazon?

Changing Channels

- Chircu and Kauffman (1999) These changes to channels to international markets
- Limitations of disintermediation strategies for some types of products /services or sectors
- Can the product or service be digitized?

Summary

- Channels to market
- Disintermediation
- Changing channels to market