Fundamentals of Marketing

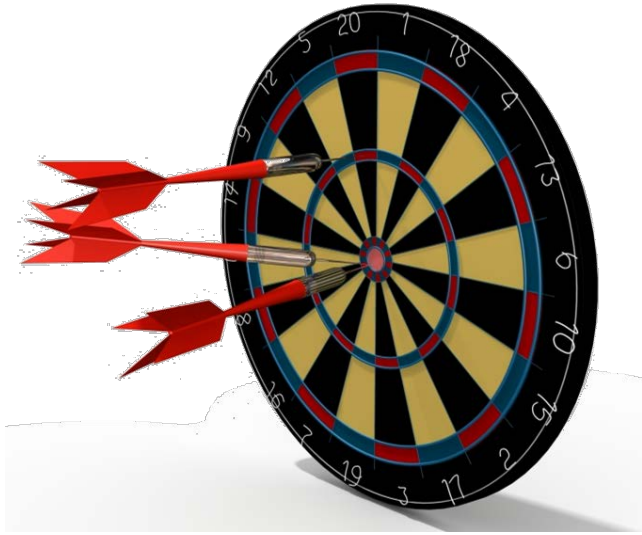
Instructor's Handouts

Chapter 10

Distribution and Channel Management

Chapter Objectives

- Analysing the different types of existing distribution.
- Studying the decisions that marketing management must make.
- Understanding the problems of distributor brands, and the most important decisions to compete
- Evaluating the importance management by brand and ECR



10.1 The Concept and Functions of Commercial Distribution

- Commercial distribution is the marketing tool which connects production to consumption. It can be defined as a system made up by a web of commercial agents, whose final aim is to place the products and services at the disposal of the end consumer.

- Distribution creates three types of utility:

  - **Time utility**, because distribution puts the product at the disposal of the consumer at the moment he/she needs it.
  - **Place utility**, through the existence of enough points of sales near the location where the consumer needs the product.
  - **Possession utility**, through which the product is delivered.

10.1 The Concept and Functions of Commercial Distribution

- Among the most important decisions a manufacturer has to make from the marketing department are the following:

  a) Selecting a distribution system.
  b) Selecting the appropriate distribution channels.
  c) Selecting the appropriate centres.
  d) Selecting the ideal products and brands.
  e) Making joint promotions with the distribution channels.
  f) Communicating with the distribution channels.
  g) Pricing and discount policies with the distributor.

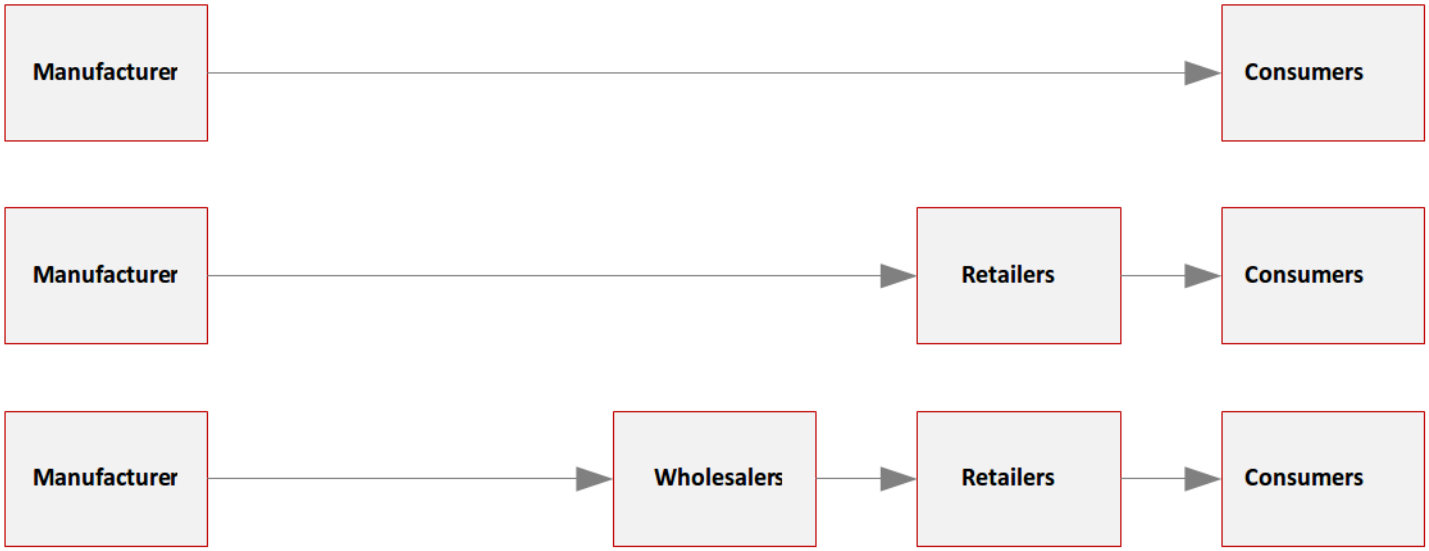
10.1 The Concept and Functions of Commercial Distribution

- On the part of the distributor, there are also numerous and complex decisions. Among the most important are the following:

a) Physical location of the sales points
b) Decisions on the variety and depth of the range.
c) Location of the product range.
d) Decisions on the launching of own brands.
e) Setting of prices and ways of payment.
f) Warehouse management.
g) Choice of promotional actions.
h) Communication with the end user.

10.2 The Distribution Channel

- To go from the producer to the consumer, the good or service must go through some means. This means is the distribution channel.



10.2 The Distribution Channel

- Wholesalers are independent organizations which buy goods from the manufacturer, or other wholesalers, to sell them to retailers, but not the end consumer. Among the most important functions of wholesalers are the following:

  - Buying goods from the producer or another wholesaler.
  - Grouping and standardising products.
  - Goods transport.
  - Storage and preserving of products.
  - Delivery to the retailer or another wholesaler.
  - Credit to customers.
  - Risk assumption.
  - Assessing the retailer on new products, commercial management, etc.

10.2 The Distribution Channel

- Retailers are the final link of the distribution channel, the one which directly connects to the market. They may therefore, foster, hinder or alter the marketing actions of the manufacturer or the wholesaler and influence sales and final results.

- According to their level of integration we can find three differentiated categories:
  - Independent commerce
  - Associated commerce
  - Integrated commerce

10.3 Merchandising

- Merchandising is a set of psychological sales techniques, applied together or separately by manufacturers or distributors, which act on the buyer with the aim of:
  - **Satisfying** the needs that lead them to the sales point
  - **Remind** them of other needs
  - **Offer new ones** to increase the amount and the frequency of buying

10.4 Manufacturer's Distribution Strategies

- The distribution decisions may be summed up in two groups:
  - Market coverage strategies.
  - Negotiation and relationship strategies with the distributor.
- In the former one, the manufacturer decides with which channel and with which organizations, within each channel, it will "cover" the market and reach potential consumers.
- In the relationship and negotiation strategies with the distributor, the manufacturer's marketing department decides the way in which it relates to the channel, that is, the planning of the negotiation and joint activation of the demand.

10.4 Manufacturer's Distribution Strategies

Market coverage strategies

- These decisions mean a defining of the most appropriate way to distribute a product or a service and there are three distinct basic possibilities:

  a) Intensive distribution strategy

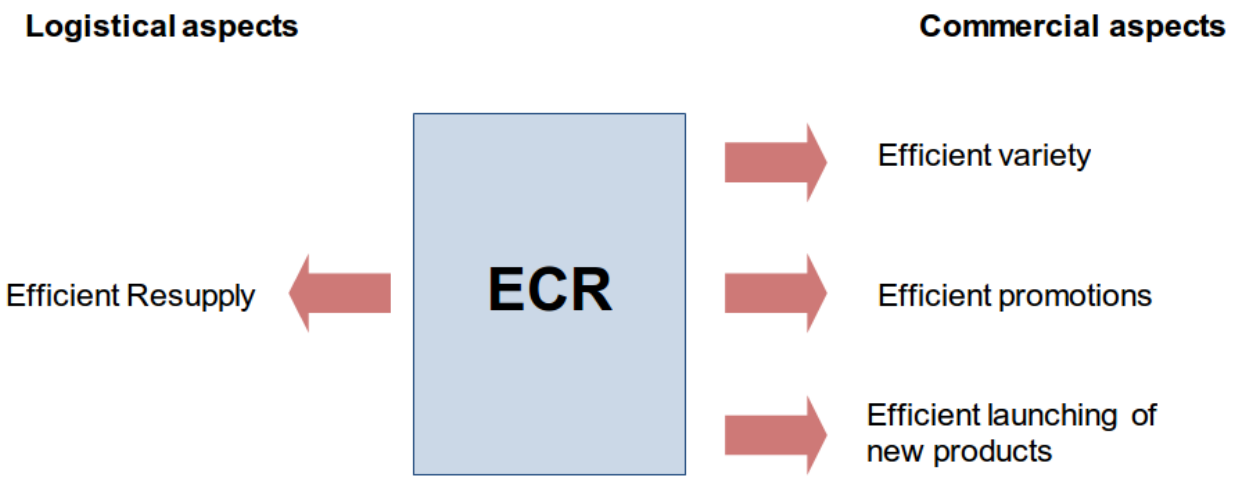
  b) Selective distribution strategy

  c) Exclusive distribution strategy

10.4 Manufacturer's Distribution Strategies

Negotiation and Relationship strategies with the distributor

- Relationship with the channel is a key aspect in the distribution strategy of the manufacturer. The two traditional approaches are the ones called push and pull.
  - The push strategy in the relationship with a channel exerts a vertical pressure from the manufacturer to the channels (wholesalers and retailers primarily).
  - The pull strategy, on the other hand, is based on a vertical "upwards" activation of the distribution channels.

10.5 The ECR

- The ECR (Efficient Consumer Response) is an agreement between manufacturers and distributors to be more efficient in the market supply process.