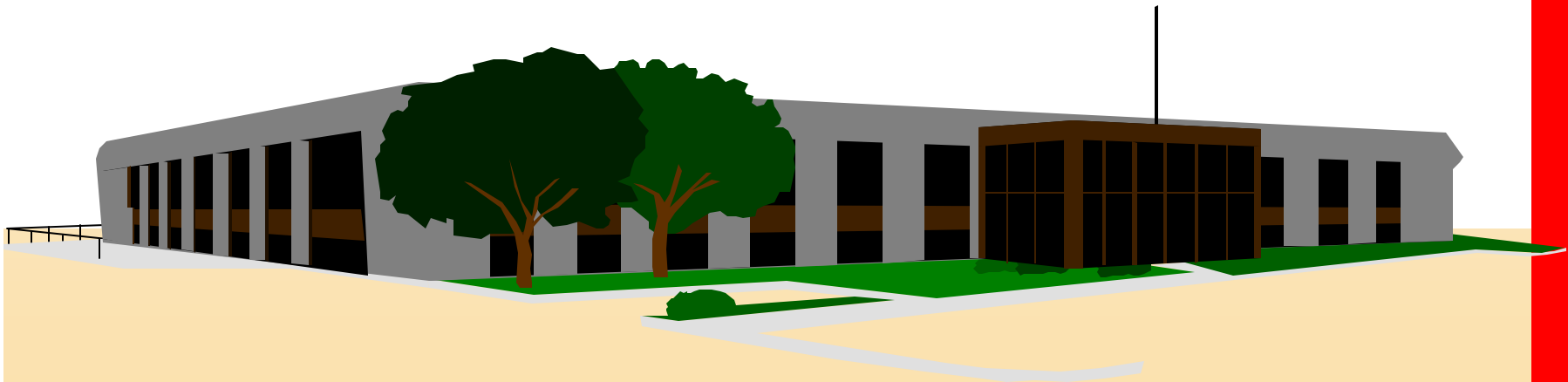


## CHAPTER SIXTEEN

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# MARKETING CHANNELS AND WHOLESALING



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**AFTER READING THIS CHAPTER YOU SHOULD  
BE ABLE TO:**

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- **Explain what is meant by a marketing channel of distribution and why intermediaries are needed.**
- **Recognize differences between marketing channels for consumer and industrial products and services.**
- **Describe the types and functions of firms that perform wholesaling activities.**

**(continued)**

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**AFTER READING THIS CHAPTER YOU SHOULD  
BE ABLE TO:**

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- **Distinguish among traditional marketing channels, electronic marketing channels, and different types of vertical marketing systems.**
- **Describe factors considered by marketing executives when selecting and managing a marketing channel, including channel conflict and legal restrictions.**

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## PP16-AAa Gateway: Adding high touch to high tech marketing channels

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- **Just when conventional wisdom says that virtual stores will replace the brick-and-mortar kind, the world's second largest direct marketer of personal computers, Gateway, is investing in real, not electronic storefronts!**
- **Gateway plans to operate a total of 400 showrooms, as Gateway has found that many personal computer buyers still prefer browsing in a store and talking with a salesperson.**

(continued)

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## PP16-AAb Gateway: Adding high touch to high tech marketing channels

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- **However, Gateway does not stock personal computers** at its showrooms. Customers who want to buy must still order from Gateway, which will custom build the system to the customer's specifications at its factories, and ship it directly to the customer's home or business.
- **80% of Gateway's growth** can be attributed to its showrooms.

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## PP16-BB Definition of Marketing Channel

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**A Marketing Channel is . . . .**

**consists of individuals and firms  
involved in the process of making a  
product or service available for use or  
consumption by consumers or industrial  
users.**

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## PP16-1a Terms Used for Marketing Intermediaries

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<b>TERM</b>	<b>DESCRIPTION</b>
<b>Middleman</b>	Any intermediary between manufacturer and end-user markets
<b>Agent or Broker</b>	Any intermediary with legal authority to act on behalf of the manufacturer
<b>Wholesaler</b>	An intermediary who sells to other intermediaries, usually to retailers; usually applies to consumer markets
<b>Retailer</b>	An intermediary who sells to consumers

(continued)

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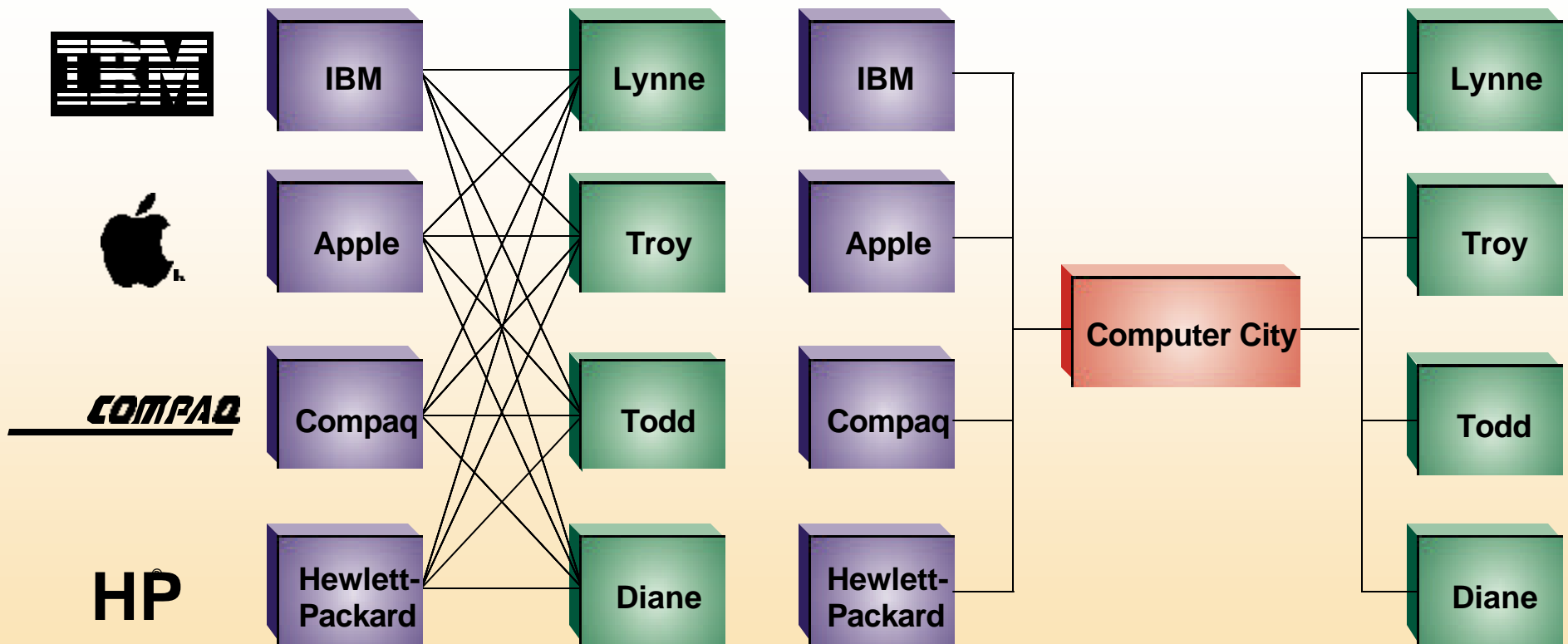
## PP16-1b Terms Used for Marketing Intermediaries

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TERM	DESCRIPTION
<b>Distributor</b>	An imprecise term, usually used to describe intermediaries who perform a variety of distribution functions, including selling, maintaining inventories, extending credit, and so on; a more common term in industrial markets but may also be used to refer to wholesalers
<b>Dealer</b>	An even more imprecise term that can mean the same as distributor, retailer, wholesaler, and so forth



## PP16-2 How Intermediaries Minimize Transactions



Contacts with no intermediaries  
 $4 \text{ producer} \times 4 \text{ buyers} = 16 \text{ contacts}$

Contacts with one intermediaries  
 $4 \text{ producer} + 4 \text{ buyers} = 8 \text{ contacts}$

## PP16-3a Marketing Channel Functions Performed by Intermediaries

### Transactional Function

- Buying*. Purchasing products for resale or as an agent for supply of a product
- Selling*. Contracting potential customers, promoting products, and soliciting orders
- Risk Taking*. Assuming business risks in the ownership of inventory that can become obsolete or deteriorate.

### Logistical Function

- Assorting*. Creating product assortments from several sources to serve customers
- Storing*. Assembling and protecting products at a convenient location to offer better customer service
- Sorting*. Purchasing in large quantities and breaking into smaller amounts desired by customers.
- Transporting*. Physically moving a product to customers.

(continued)

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## PP16-3b Marketing Channel Functions Performed by Intermediaries

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Facilitating Function

- Financing.* Extending credit to customers
- Grading.* Inspecting, testing, or judging products, and assigning them quality grades
- Marketing information and research.* Providing information to customers and suppliers, including competitive conditions and trends

## PP16-CC Concept Check

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- 1. What is meant by a marketing channel?**
- 2. What are the three basic functions performed by marketing intermediaries?**

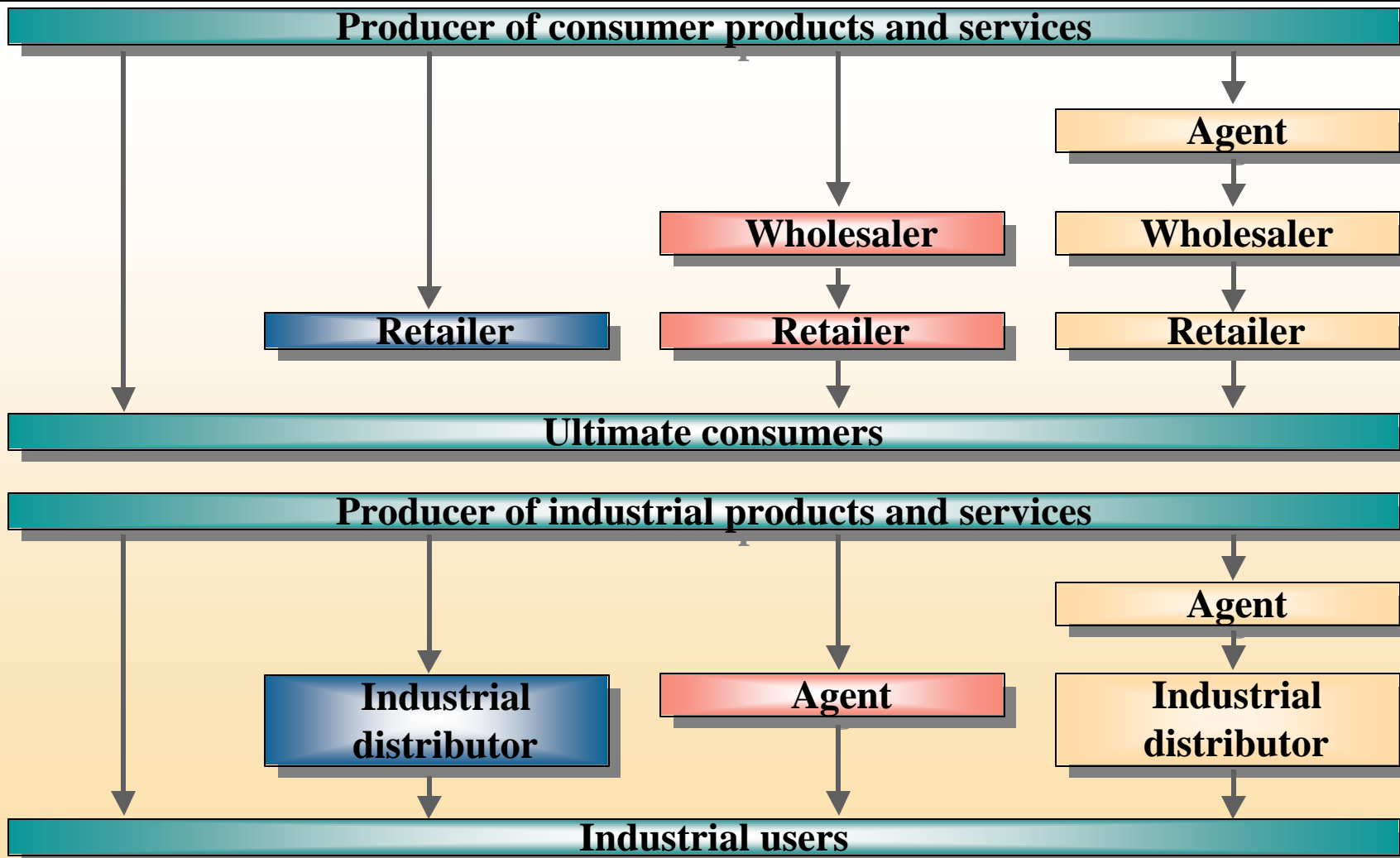
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## PP16-DD Direct and Indirect Channels

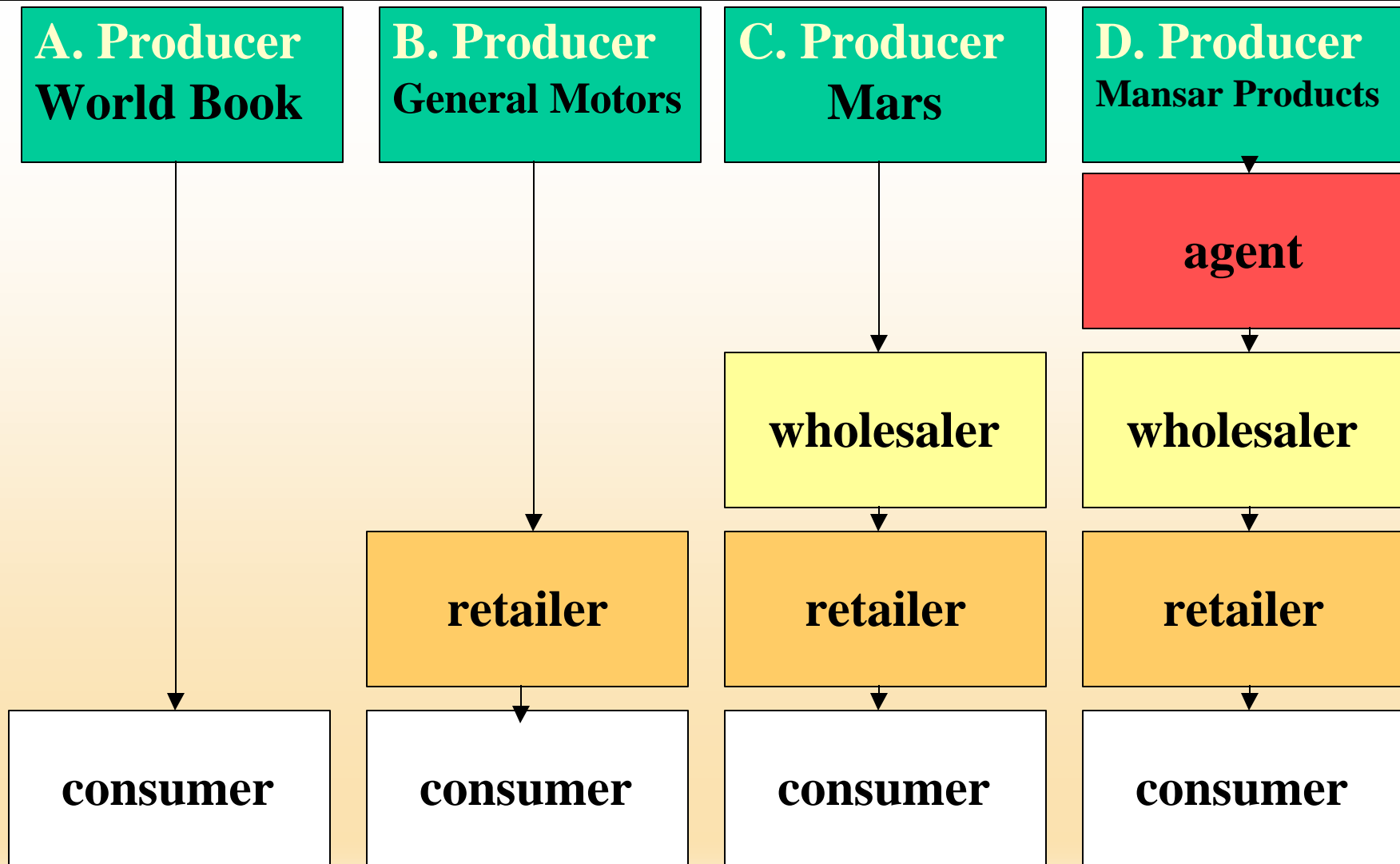
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- **Direct Channel:** when a producer and ultimate consumer deal directly with each other.
- **Indirect Channel:** when intermediaries are inserted between the producer and consumers and perform numerous channel functions.

# PP16-A Structure of marketing channels



## PP16-4 Common marketing channels for consumer goods and services



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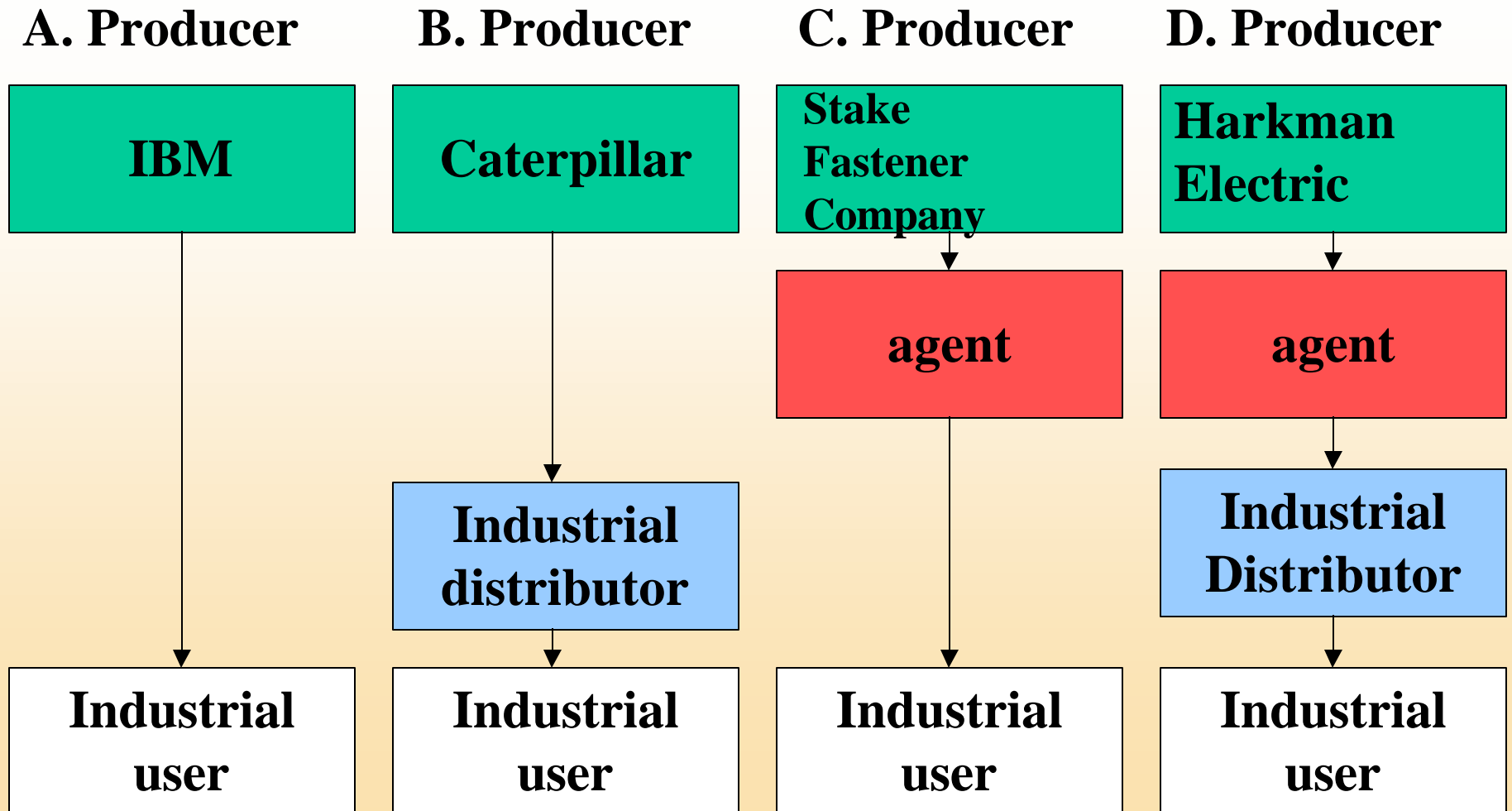
## PP16-EE Industrial Distributor

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**An industrial distributor performs a variety of marketing channel functions, including selling, stocking, and delivering a full product assortment and financing. In many ways, industrial distributors are like wholesalers in consumer channels.**



## PP16-5 Common marketing channels for industrial goods and services



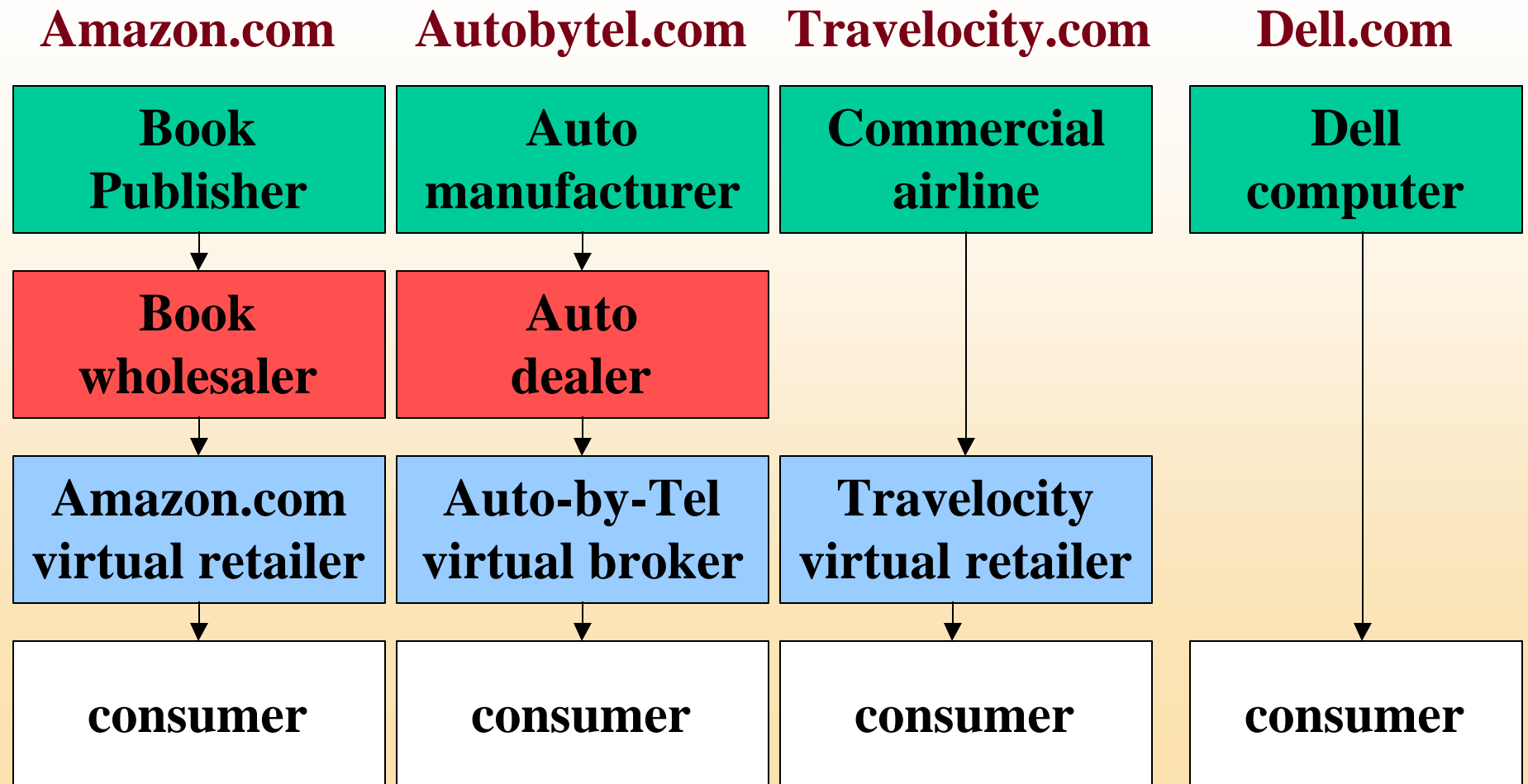
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## PP16-FF Electronic Marketing Channels

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- Interactive electronic technology has made possible **electronic marketing channels**, which employ the Internet to make goods and services available for consumption or use by consumers or industrial buyers.
- A **unique feature of electronic marketing channels** is that they combine electronic and traditional intermediaries to create time, place, form, and possession utility for buyers.

## PP16-6 Representative electronic marketing channels



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## PP16-GG Direct Marketing Channels

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- **Direct marketing** allows consumers to buy products by interacting with various advertising media without a face-to-face meeting with a salesperson.
- **Direct marketing includes** mail-order selling, direct-mail sales, catalog sales, telemarketing, interactive media, and televised home shopping.
- **U.S. sales revenue** attributed to direct marketing exceeds \$1.4 trillion.

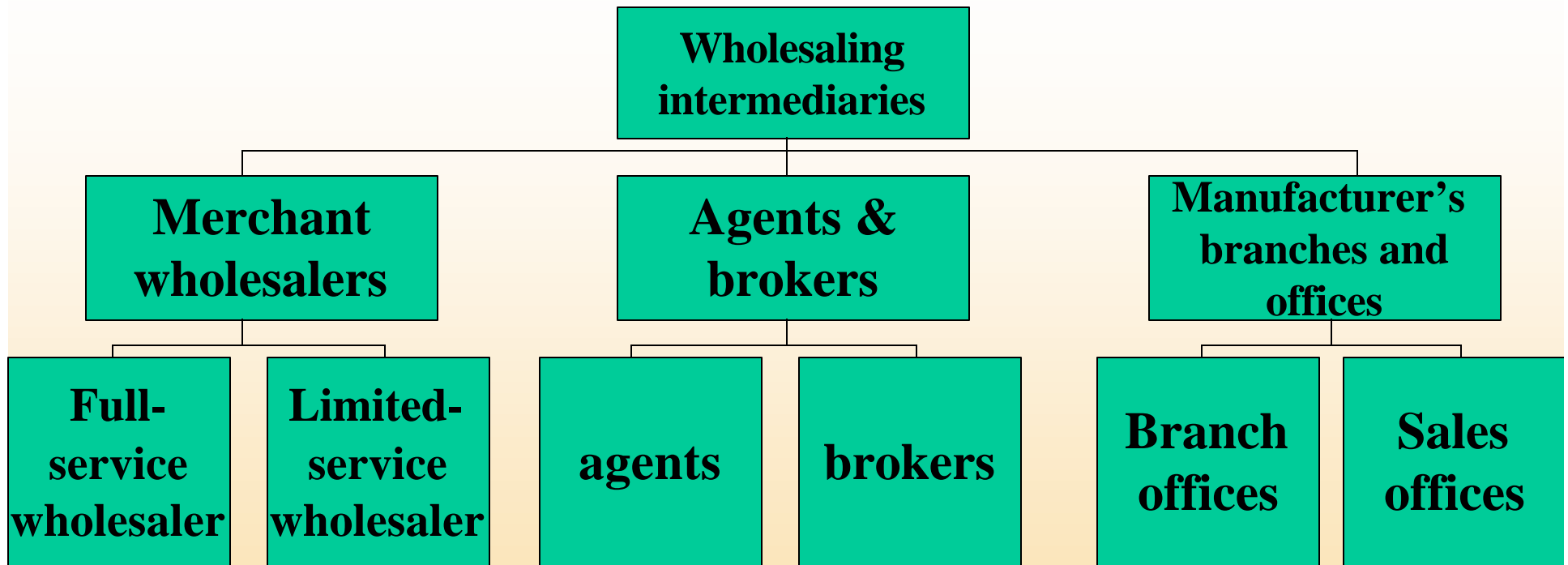
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## PP16-HH Multiple Channels and Strategic Alliances

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- **Dual Distribution** is an arrangement whereby a firm reaches different buyers by employing two or more different types of channels for the same basic product.
- **Strategic channel alliances** are a recent innovation in marketing channels, whereby one firm's channel is used to sell another firm's products.

# PP16-7 Types of Wholesaling Intermediaries



## PP16-8 Functions Performed by Independent Wholesaler Types

FUNCTIONS PERFORMED	MERCHANT WHOLESALERS								
	FULL SERVICE		LIMITED SERVICE				AGENTS AND BROKERS		
	GENERAL MERCHAN-DISE	SPECIALTY MERCHAN-DISE	RACK JOBBERS	CASH AND CARRY	DROP SHIPPERS	TRUCK JOBBERS	MANUFAC-TURER'S AGENTS	SELLING AGENTS	BROKERS
<b>TRANSACTIONAL FUNCTIONS</b>									
Buying	●*	●	●	●	●	●	●	●	●
Sales calls on customers	●	●	●	●	●	●	●	●	●
Risk taking (taking title to products)	●	●	●	●	●	●	●	●	●
<b>LOGISTICAL FUNCTIONS</b>									
Creates product assortments	●	●	●	●	●	●	●	●	●
Stores products (maintains inventory)	●	●	●	●	●	●	●	●	●
Sorts products	●	●	●	●	●	●	●	●	●
Transports products	●	●	●	●	●	●	●	●	●
<b>FACILITATING FUNCTIONS</b>									
Provides financing (credit)	●	●	●	●	●	●	●	●	●
Provides market information and research	●	●	●	●	●	●	●	●	●
Grading	●	●	●	●	●	●	●	●	●
★ Key:	●, Yes;	●, Sometimes;	●, No.						

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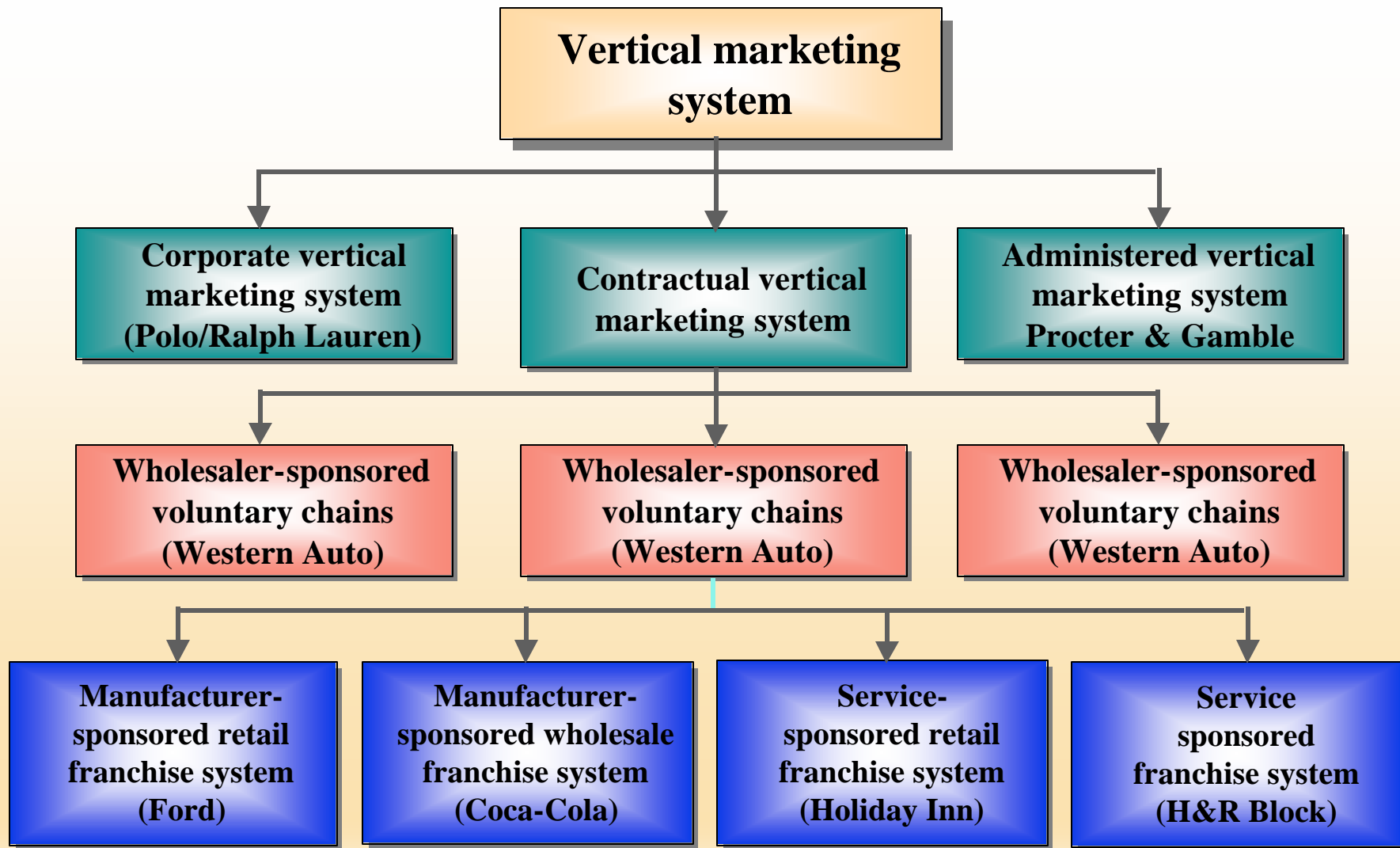
# PP16-II Vertical Marketing Systems

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- **Vertical marketing systems** are professionally managed and centrally coordinated marketing channels designed to achieve channel economies and maximum marketing impact.
- **Major types of vertical marketing systems:**
  - corporate
  - contractual
  - administered



# PP16-9 Types of vertical marketing systems



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## PP16-JJ Corporate Vertical Marketing System

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- The combination of successive stages of production and distribution under a single ownership is a **corporate vertical marketing system**.
- These types of marketing systems can develop via either *forward integration* or *backward integration*.

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## PP16-KK Contractual Vertical Marketing System

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- Under a *contractual vertical marketing system*, independent production and distribution firms integrate their efforts on a contractual basis to obtain **greater functional economies and marketing impact** than they could achieve alone.
- Contractual systems are the **most popular** among the three types of vertical marketing systems, accounting for about 40% of all retail sales.

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# PP16-LL Franchising

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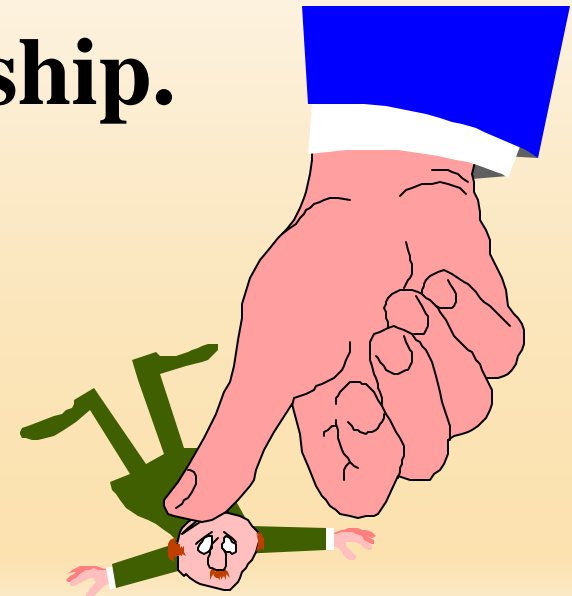
- **Franchising** is a contractual arrangement between a parent company (a **franchisor**) and an individual or firm (a **franchisee**) that allows the franchisee to operate a certain type of business under an established name according to specific rules.
- There are **700,000 franchise outlets** in the U.S., with sales of about \$1 trillion.

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## PP16-MM Administered Vertical Marketing System

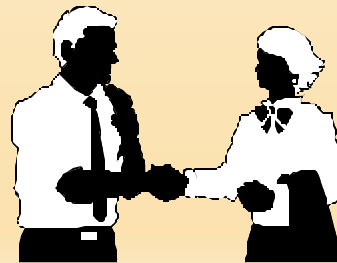
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**Administered vertical marketing systems achieve coordination at successive stages of production and distribution by the **size** and **influence** of one channel member rather than through ownership.**



# PP16-NN Channel Partnerships

- A **channel partnership** consists of agreements and procedures among channel members for order and physically distributing a producer's products through the channel to the ultimate consumer.
- A **central feature of channel partnerships** is the collaborative use of modern information and communication technology to better serve customers and reduce the time and cost of performing channel functions.



## PP16-00 Concept Check

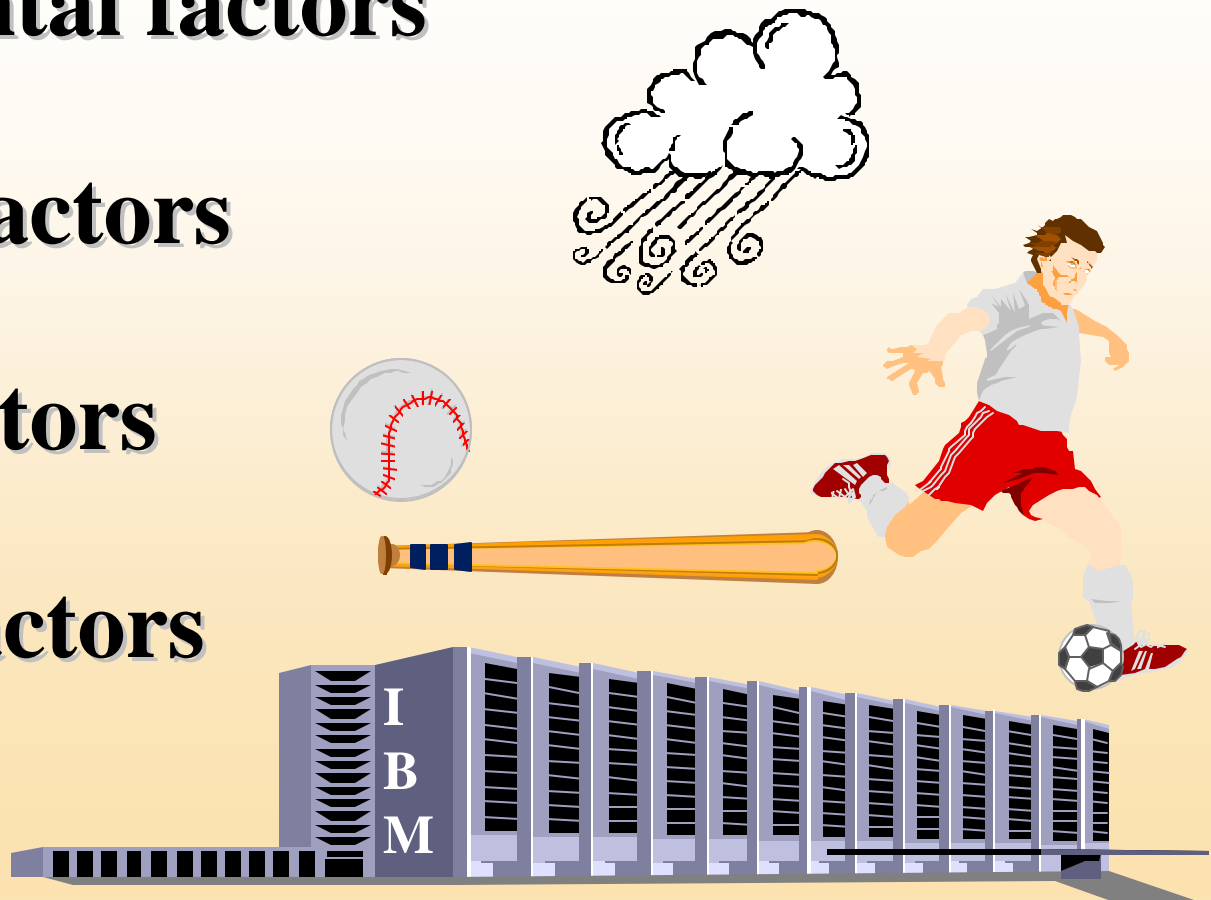
1. What is the difference between a **direct** and an **indirect** channel?
2. Why are channels for industrial products typically **shorter** than channels for consumer products?
3. What is the **principal distinction** between a corporate vertical marketing system and an administered vertical marketing system?

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## PP16-PP Factors affecting Channel Choice & Management

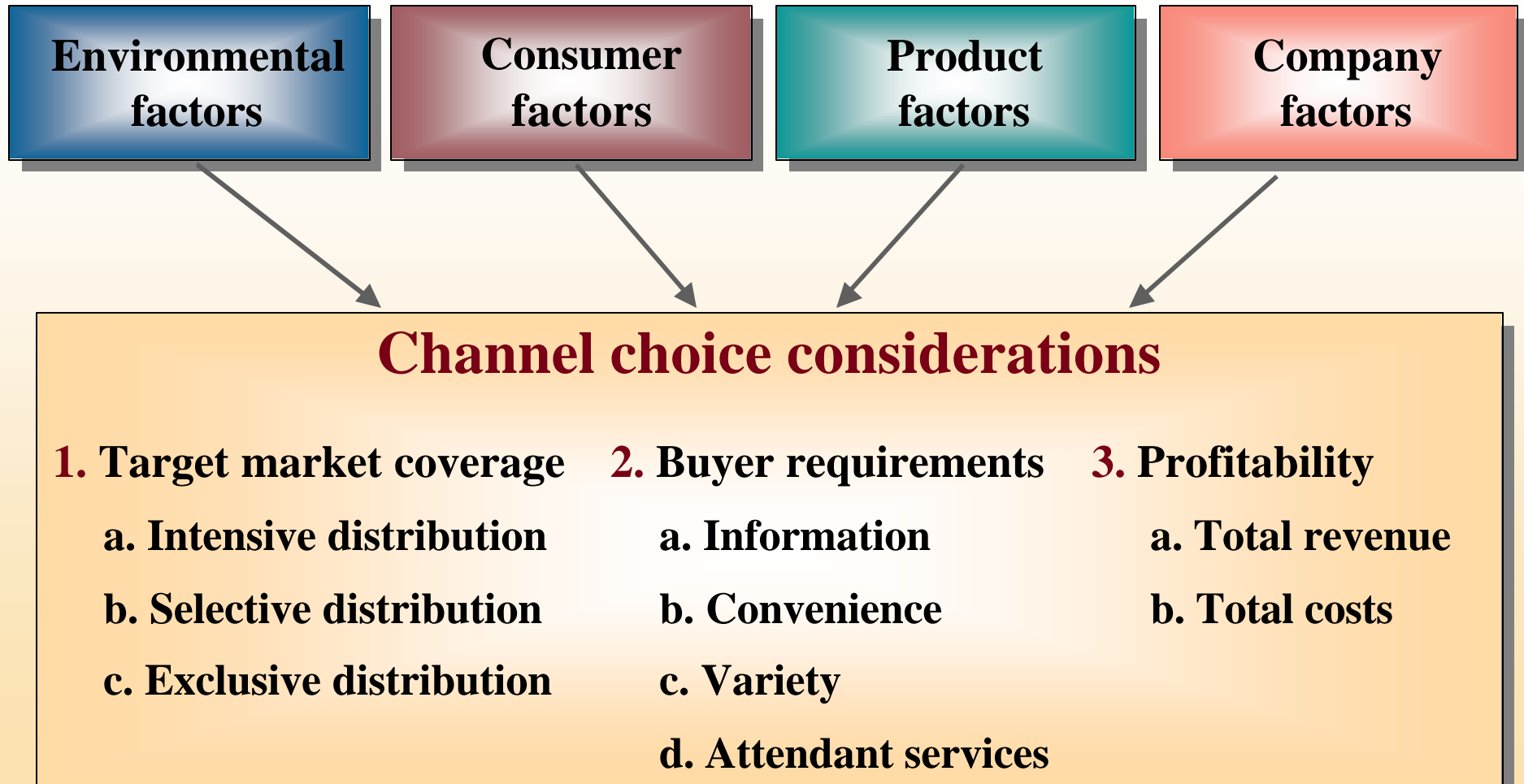
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- **environmental factors**
- **consumer factors**
- **product factors**
- **company factors**





## PP16-B Factors affecting channel choice and management



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# PP16-QQ Channel Design Considerations

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Marketing executives typically consider **three** questions when choosing a marketing channel and intermediaries:

1. Which channel and intermediaries will provide the **best coverage** of the target market?
2. Which channel and intermediaries will best satisfy the **buying requirements** of the target market?
3. Which channel and intermediaries will be the **most profitable**.

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## PP16-RR Three degrees of Distribution Density

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- 1. Intensive distribution**
- 2. Exclusive distribution**
- 3. Selective distribution**

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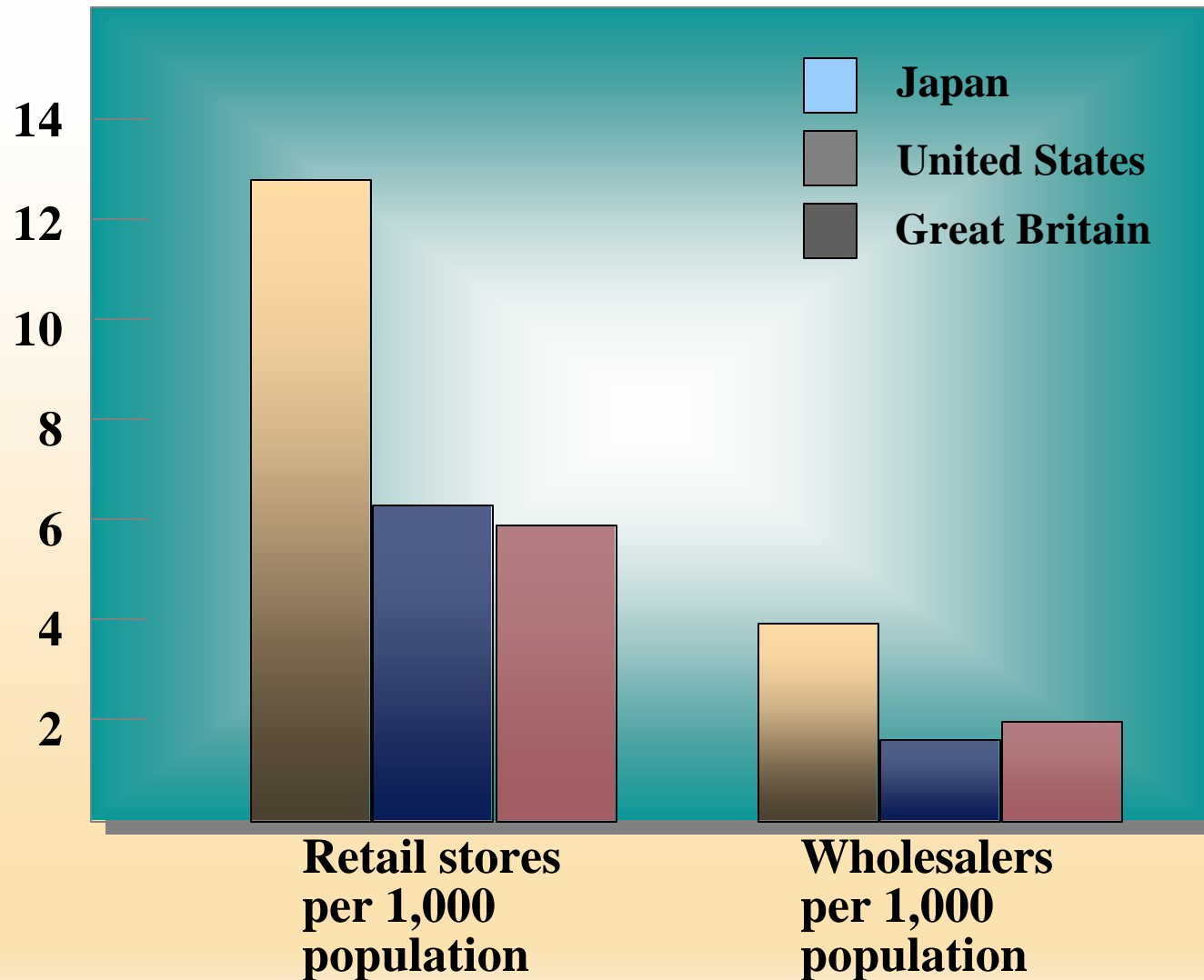
## PP16-SS Global Dimensions of Marketing Channels

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- **Basic marketing channel functions** must be performed around the world, but **within the context of** the traditions, customs, geography, and the economic history of the individual countries and societies.
- Understanding the marketing channels in global markets is often a **prerequisite to successful marketing.**



## PP16-C Retailer and wholesaler density in the United States, Japan, and Great Britain



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# PP16-TT Conflict in Marketing Channels

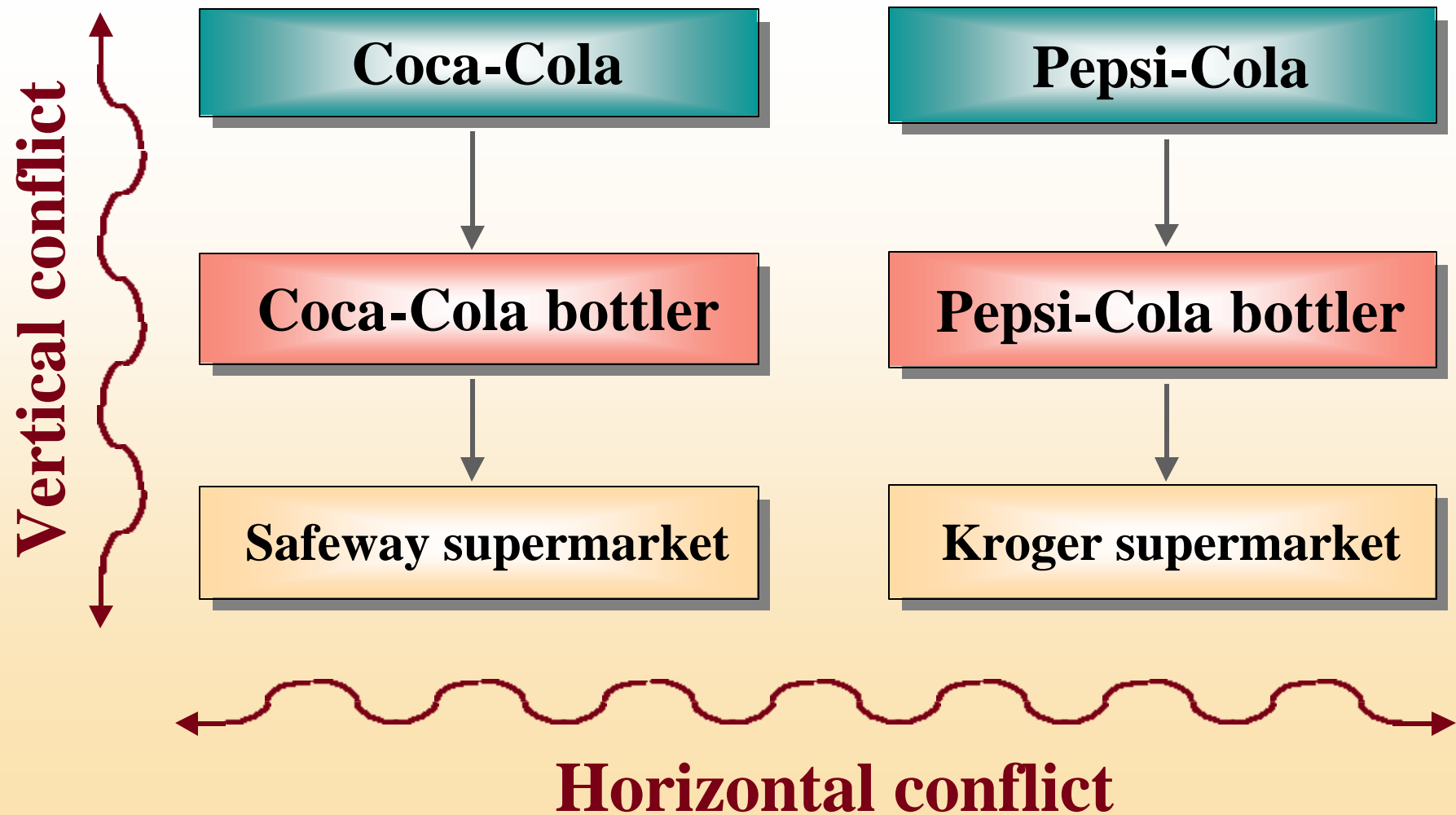
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## 1. Vertical Conflict

## 2. Horizontal Conflict



## PP16-D Horizontal and vertical conflict in marketing channels



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## PP16-UU Definition of a Channel Captain

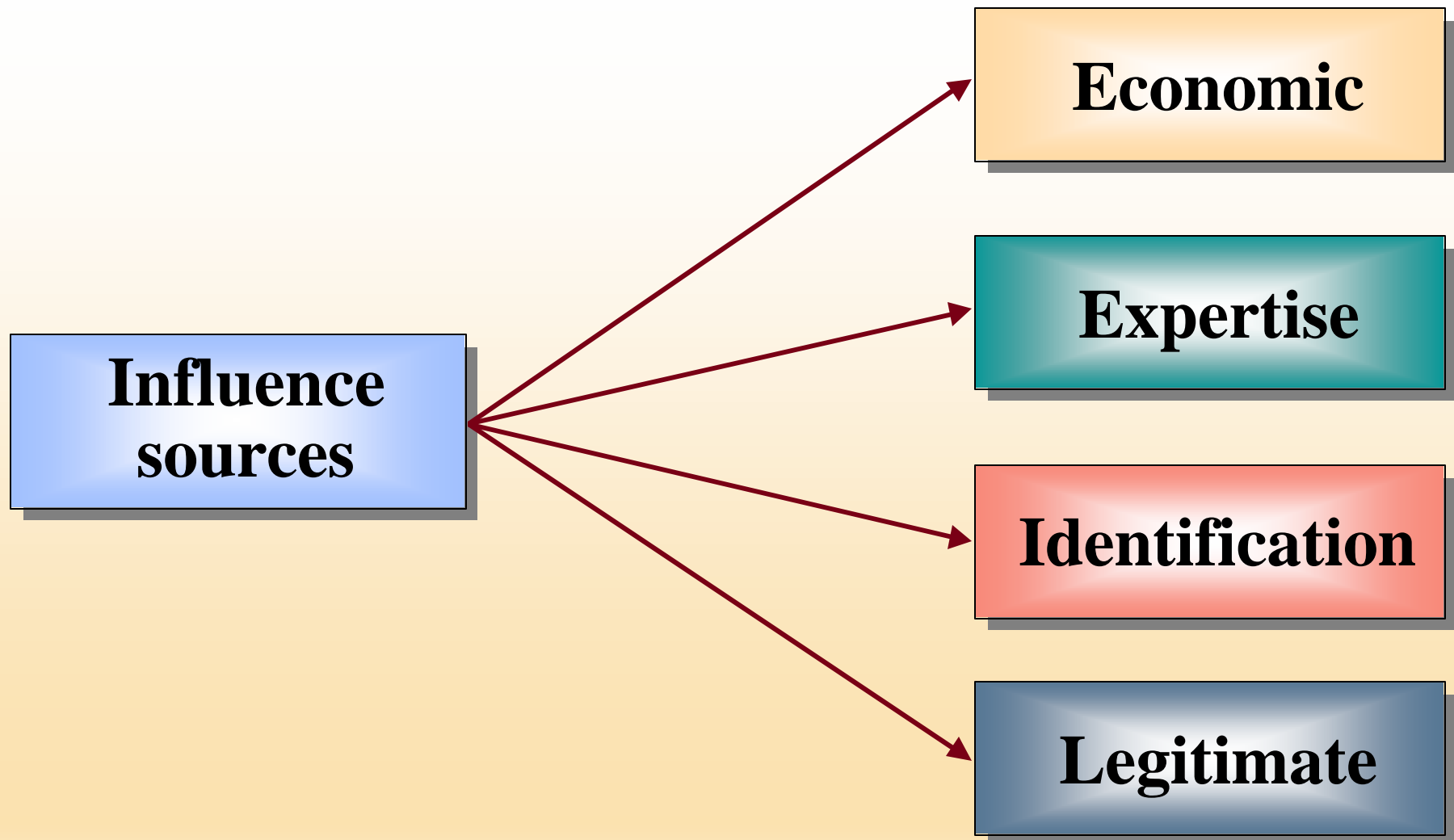
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**A Channel Captain is . . . .**

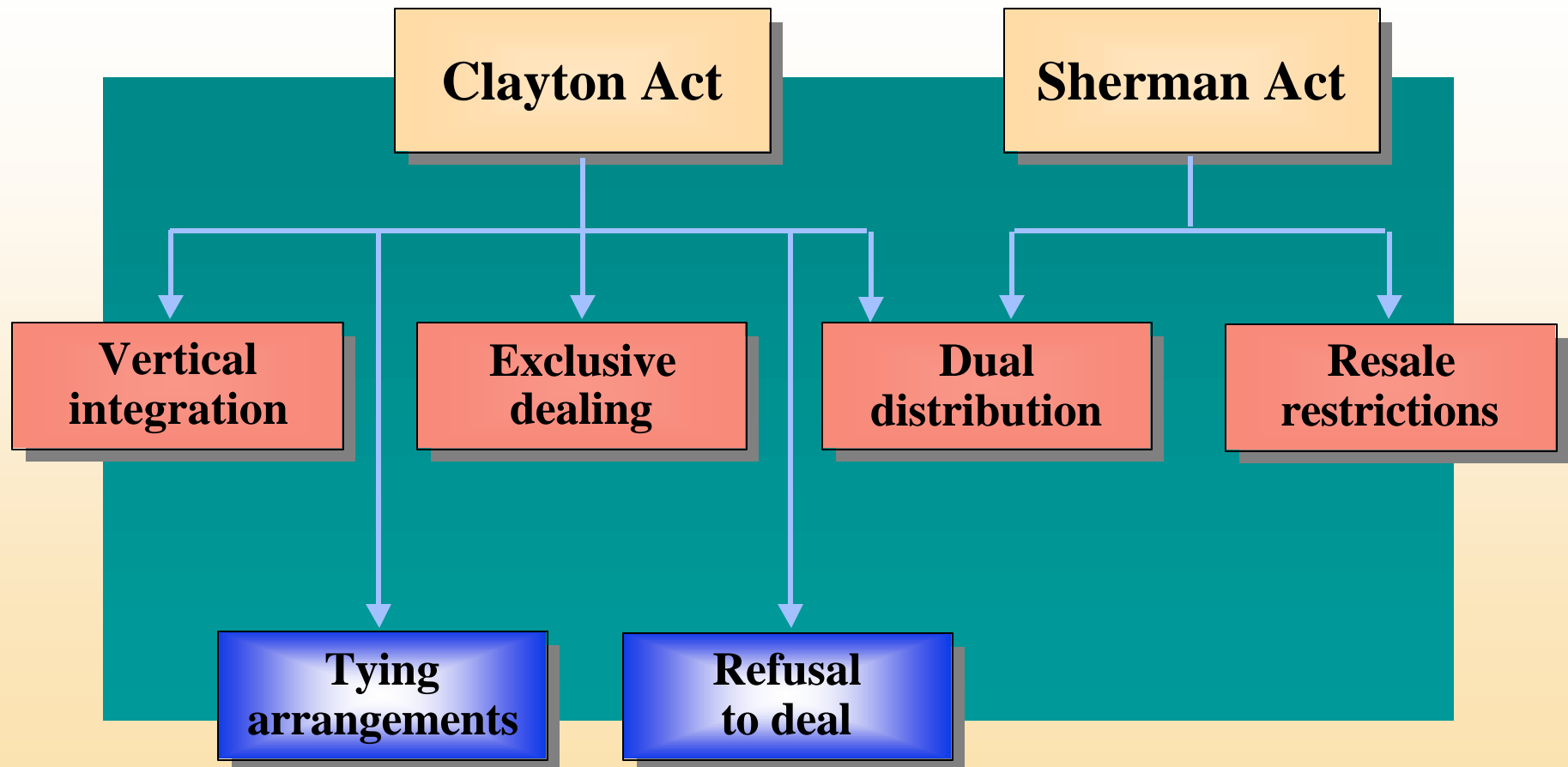
**a channel member that coordinates, directs, and supports other channel members. Channel captains can be producers, wholesalers, or retailers.**



## PP16-E Sources of Influence for a Channel Captain



## PP16–10 Channel strategies and practices affected by legal restrictions



## PP16-VV Concept Check



- 1. What are the three degrees of distribution density?**
- 2. What are the three questions marketing executives consider when choosing a marketing channel and intermediaries?**
- 3. What is meant by exclusive dealing?**