CHAPTER SIXTEEN

MARKETING CHANNELS
AND WHOLESALING
AFTER READING THIS CHAPTER YOU SHOULD BE ABLE TO:

• 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.
AFTER READING THIS CHAPTER YOU SHOULD BE ABLE TO:

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

• 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)
• 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.
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.
<table>
<thead>
<tr>
<th>TERM</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middleman</td>
<td>Any intermediary between manufacturer and end-user markets</td>
</tr>
<tr>
<td>Agent or Broker</td>
<td>Any intermediary with legal authority to act on behalf of the manufacturer</td>
</tr>
<tr>
<td>Wholesaler</td>
<td>An intermediary who sells to other intermediaries, usually to retailers; usually applies to consumer markets</td>
</tr>
<tr>
<td>Retailer</td>
<td>An intermediary who sells to consumers</td>
</tr>
</tbody>
</table>
### PP16-1b Terms Used for Marketing Intermediaries

<table>
<thead>
<tr>
<th>TERM</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distributor</td>
<td>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</td>
</tr>
<tr>
<td>Dealer</td>
<td>An even more imprecise term that can mean the same as distributor, retailer, wholesaler, and so forth</td>
</tr>
</tbody>
</table>
PP16-2 How Intermediaries Minimize Transactions

Contacts with no intermediaries
4 producer x 4 buyers = 16 contacts

Contacts with one intermediaries
4 producer + 4 buyers = 8 contacts
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)
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
1. What is meant by a marketing channel?

2. What are the three basic functions performed by marketing intermediaries?
PP16-DD  Direct and Indirect Channels

• **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

Producer of consumer products and services

- Agent
- Wholesaler
- Retailer

Ultimate consumers

Producer of industrial products and services

- Agent
- Industrial distributor

Industrial users
PP16-4 Common marketing channels for consumer goods and services

A. Producer World Book

B. Producer General Motors

C. Producer Mars

D. Producer Mansar Products

agent

wholesaler

wholesaler

retailer

retailer

retailer

consumer

consumer

consumer

consumer
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.
Common marketing channels for industrial goods and services

A. Producer
- IBM

B. Producer
- Caterpillar

C. Producer
- Stake Fastener Company
  - agent
  - Industrial Distributor
  - Industrial user

D. Producer
- Harkman Electric
  - agent
  - Industrial user
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.
Representative electronic marketing channels

Book Publisher

Book wholesaler

Amazon.com virtual retailer

consumer

Auto manufacturer

Auto dealer

Auto-by-Tel virtual broker

consumer

Commercial airline

Travelocity.com virtual retailer

consumer

Dell computer

Dell.com

consumer
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.
• **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

Wholesaling intermediaries

- Merchant wholesalers
  - Full-service wholesaler
  - Limited-service wholesaler
- Agents & brokers
  - Agents
  - Brokers
- Manufacturer’s branches and offices
  - Branch offices
  - Sales offices
### Functions Performed by Independent Wholesaler Types

<table>
<thead>
<tr>
<th>MERCHANT WHOLESALERS</th>
<th>FAMILY OF WHOLESALERS</th>
<th>FULL SERVICE</th>
<th>LIMITED SERVICE</th>
<th>AGENTS AND BROKERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>FUNCTIONS</td>
<td>GENERAL MERCHANDISE</td>
<td>SPECIALTY MERCHANDISE</td>
<td>RACK JOBBER</td>
<td>CASH AND CARRY</td>
</tr>
<tr>
<td>Buying</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Sales calls on</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>customers</td>
<td>Risk taking</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>(taking title to</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>products)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LOGISTICAL FUNCTIONS</td>
<td>Creates product</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>assortments</td>
<td>Stores products</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>(maintains</td>
<td>Sorts products</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>inventory)</td>
<td>Transports products</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>FACILITATING</td>
<td>Provides financing</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>FUNCTIONS</td>
<td>(credit)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provides market</td>
<td>Grading</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>information and</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>research</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

**Key:**
- **Yes:** Yes
- **Sometimes:** Sometimes
- **No:** No
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
Types of vertical marketing systems

- **Vertical marketing system**
  - **Corporate vertical marketing system** (Polo/Ralph Lauren)
  - **Contractual vertical marketing system** (Procter & Gamble)
  - **Administered vertical marketing system**
- **Wholesaler-sponsored voluntary chains** (Western Auto)
  - Wholesaler-sponsored voluntary chains (Western Auto)
- **Manufacturer-sponsored retail franchise system** (Ford)
  - Manufacturer-sponsored wholesale franchise system (Coca-Cola)
- **Service-sponsored retail franchise system** (Holiday Inn)
- **Service sponsored franchise system** (H&R Block)
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.
• 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.
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.
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.
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?
Factors affecting Channel Choice & Management

- **environmental factors**
- **consumer factors**
- **product factors**
- **company factors**
**Factors affecting channel choice and management**

**Channel choice considerations**

1. **Target market coverage**
   - a. Intensive distribution
   - b. Selective distribution
   - c. Exclusive distribution
   - d. Attendant services

2. **Buyer requirements**
   - a. Information
   - b. Convenience
   - c. Variety

3. **Profitability**
   - a. Total revenue
   - b. Total costs

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**Environmental factors**

**Consumer factors**

**Product factors**

**Company factors**
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.
Three degrees of Distribution Density

1. Intensive distribution
2. Exclusive distribution
3. Selective distribution
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.
Retailer and wholesaler density in the United States, Japan, and Great Britain

<table>
<thead>
<tr>
<th></th>
<th>Retail stores per 1,000 population</th>
<th>Wholesalers per 1,000 population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>14</td>
<td>2</td>
</tr>
<tr>
<td>United States</td>
<td>12</td>
<td>4</td>
</tr>
<tr>
<td>Great Britain</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>
1. Vertical Conflict

2. Horizontal Conflict
Horizontal and vertical conflict in marketing channels

- Coca-Cola
  - Coca-Cola bottler
    - Safeway supermarket
  - Pepsi-Cola bottler
    - Kroger supermarket

- Pepsi-Cola
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

Influence sources

- Economic
- Expertise
- Identification
- Legitimate
Channel strategies and practices affected by legal restrictions

- **Clayton Act**
  - Vertical integration
  - Exclusive dealing
  - Tying arrangements

- **Sherman Act**
  - Dual distribution
  - Resale restrictions
  - Refusal to deal
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?