12-1 Distribution Channels: Objectives, Terminology, and Structure

12-1 Identify and compare the basic structure options for consumer channels and industrial channels. Marketing channels exist to create utility for customers. The major categories of channel utility are place utility (the availability of a product or service in a location that is convenient to a ­potential ­customer), time utility (the availability of a product or service when desired by a customer), form  ­utility (the availability of the product processed, prepared, in proper condition, and/or ready to use), and information utility (the availability of answers to questions and general ­communication about useful product features and benefits). Because these utilities can be a basic source of ­competitive ­advantage and represent an important element of a firm’s overall value ­proposition, choosing a channel ­strategy is one of the key policy decisions that management must make. For example, the Coca-Cola ­Company’s global marketing leadership position is based in part on its ability to put Coke “within an arm’s reach of desire”—in other words, to create place utility. The starting point in selecting the most effective channel arrangement is a clear focus of the company’s marketing effort on a target market and an assessment of the way(s) in which ­distribution can contribute to the firm’s overall value proposition. Who are the target customers, and where are they located? What are their information requirements? What are their preferences for service? How sensitive are they to the product’s or service’s price? Moreover, each market must be analyzed to determine the cost of providing channel services. What is appropriate in one country may not be always effective in another. Even marketers concerned with a single-country program should study channel arrangements in different parts of the world for valuable information and insight into possible new channel strategies and tactics. For example, retailers in Europe and Asia studied self-service discount retailing in the United States and then introduced the self-service concept in their own countries. Similarly, governments and business executives from many parts of the world have examined Japanese trading companies to learn from their success. Walmart’s formula has been closely studied and adapted by competitors in the markets it has entered. As mentioned previously, distribution channels are systems that link manufacturers to customers. Although channels for consumer products and industrial products are similar, there are also some distinct differences between them. In business-to-consumer marketing (also known as b-to-c or B2C marketing), consumer channels are designed to put products in the hands of people for their own use. By contrast, business-to-business marketing (also known as b-to-b or B2B marketing) involves industrial channels that deliver products to manufacturers or other organizations that then use them as inputs in the production process or in day-to-day operations. Intermediaries play important roles in both consumer and industrial channels. A distributor is a wholesale intermediary that typically carries product lines or brands on a selective basis. An agent is an intermediary who negotiates exchange transactions between two or more parties but does not take title to the goods being purchased or sold. Consumer Products and Services Figure 12-1 summarizes six channel structure alternatives for consumer products. The characteristics of both buyers and products have an important influence on channel design. The first alternative is to market directly to buyers via the Internet, mail order, various types of door-to-door selling, or manufacturer-owned retail outlets. The other options use retailers and various combinations of sales forces, agents/brokers, and wholesalers. The number of individual buyers and their geographic distributions, incomes, shopping habits, and reactions to different selling methods frequently vary from country to country and may require different channel approaches. Figure 12-1 Marketing Channel Alternatives: Consumer Products Product characteristics such as degree of standardization, perishability, bulk, service requirements, and unit price have an impact as well. Generally speaking, channels tend to be longer (require more intermediaries) as the number of customers to be served increases and the price per unit decreases. Bulky products usually require channel arrangements that minimize shipping distances and the number of times products change hands before they reach the ultimate customer. The Internet and related forms of new media are dramatically altering the distribution landscape. For example, eBay pioneered the peer-to-peer marketing (p-to-p) model, whereby individual consumers market products to other individuals. eBay’s success was one reason that traditional merchants quickly recognized the Internet’s potential. To sustain revenue growth, eBay began assisting large companies such as Disney and IBM in setting up online “storefronts” to sell items for fixed prices in addition to conducting b-to-c auctions. “As we evolved from auction-style bidding to adding Buy It Now, the logical next step for us was to give sellers a place to showcase their listings,” said Bill Cobb, eBay’s senior vice president for global marketing.2 Some observers predict that interactive television (ITV) will also become a viable direct-distribution channel in the coming years as more households are wired with the necessary two-way technology. Time-pressed consumers in many countries are increasingly attracted to the time and place utility created by the Internet and similar new media technologies. Low-cost mass-market products and certain services can be sold on a door-to-door basis via a direct sales force. Door-to-door and house-party selling is considered a mature channel in the United States; however, it is now growing in popularity elsewhere. For example, Orlando, Florida–based Tupperware has a sales force of 200,000 in Indonesia. Brand-conscious consumers there have embraced the company’s plastic food-storage containers, and Tupperware’s direct-sales business model gives it an advantage in a country with a limited retail infrastructure (see Exhibit 12-2). Today, Indonesia is Tupperware’s biggest market. As former CEO and current executive chairman Rick Goings notes, “This is an incredible sweet spot for us. It’s where the population of the world is. You cannot fight that.”3