Marketing Channels and Value Networks

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Marketing Channels

Most producers do not sell their goods directly to the final users; between them stands a set of intermediaries performing a variety of functions. These intermediaries constitute a marketing channel (also called a trade channel or distribution channel). Formally, **marketing channels are sets of interdependent organizations participating in the process of making a product or service available for use or consumption**. They are the set of pathways a product or service follows after production, culminating in purchase and consumption by the final end user.

Some *intermediaries* — such as wholesalers and retailers — buy, take title to, and resell the merchandise; they are called merchants.
Others — *brokers, manufacturers' representatives, sales agents* — search for customers and may negotiate on the producer's behalf but do not take title to the goods; they are called agents.
Still others — *transportation companies, independent warehouses, banks, advertising agencies* — assist in the distribution process but neither take title to goods nor negotiate purchases or sales; they are called facilitators.

Importance of Marketing Channels

A marketing channel system is the particular set of marketing channels a firm employs, and decisions about it are among the most critical ones management face. Marketing channels also represent a substantial **opportunity cost**. One of their chief roles is to **convert potential buyers into profitable customers**. Marketing channels must not just serve markets, they must also **make markets**.

In managing its intermediaries, the firm must decide how much effort to devote to **push versus pull marketing**. *A **push strategy** uses the manufacturer's sales force, trade promotion money, or other means to induce intermediaries to carry, promote, and sell the product to end users*. A push strategy is particularly appropriate when there is *low brand loyalty* in a category, brand choice is made in the store, the product is an *impulse item*, and product *benefits are well understood*. *In a **pull strategy** the manufacturer uses advertising, promotion, and other forms of communication to persuade consumers to demand the product from intermediaries, thus inducing the intermediaries to order it*. Pull strategy is particularly appropriate when there is *high brand loyalty* and *high involvement* in the category, when consumers are able to *perceive differences between brands*, and when they choose the brand before they go to the store.

Value Networks

A supply chain view of a firm sees markets as destination points and amounts to a linear view of the flow of ingredients and components through the production process to their ultimate sale to customers. The company should first think of the target market, however, and then design the supply chain backward from that point. This strategy has been called **demand chain planning**.

A broader view sees a company at the center of a ***value network*** *— a system of partnerships and alliances that a firm creates to source, augment, and deliver its offerings.* A value network includes a firm’s suppliers and its suppliers’ suppliers, and its immediate customers and their end customers. The value network includes valued relationships with others such as university researchers and government approval agencies.

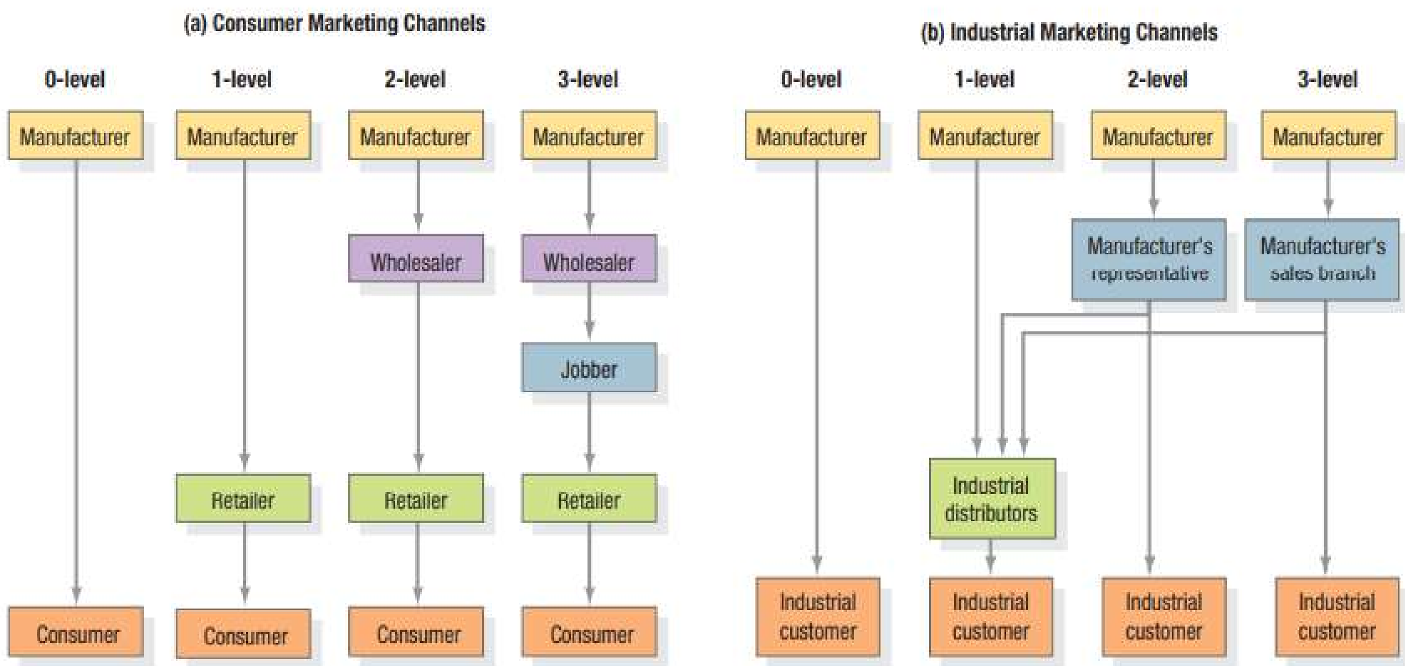
Today’s successful companies typically employ hybrid channels and multichannel marketing, multiplying the number of “go-to-market” channels in any one market area. ***Hybrid channels*** *or* ***multichannel marketing*** *occurs when a single firm uses two or more marketing channels to reach customer segments.*

Role of Marketing Channels

A marketing channel performs the work of moving goods from producers to consumers. It overcomes the **time, place, and possession gaps** that separate goods and services from those who need or want them. Members of the marketing channel perform a number of key functions :

- ✓ Gather information about potential and current customers, competitors, and other actors and forces in the marketing environment.
- ✓ Develop and disseminate persuasive communications to stimulate purchasing.
- ✓ Negotiate and reach agreements on price and other terms so that transfer of ownership or possession can be affected.
- ✓ Place orders with manufacturers.
- ✓ Acquire the funds to finance inventories at different levels in the marketing channel.
- ✓ Assume risks connected with carrying out channel work.
- ✓ Provide for the successive storage and movement of physical products.
- ✓ Provide for buyers' payment of their bills through banks and other financial institutions.
- ✓ Oversee actual transfer of ownership from one organization or person to another.

Channels Levels



Channels Levels

A **zero-level** channel, also called a direct marketing channel, consists of a manufacturer selling directly to the final customers. A **one-level** channel contains one selling intermediary, such as a retailer. A **two-level** channel contains two intermediaries. In consumer markets, these are typically a wholesaler and a retailer. A **three-level** channel contains three intermediaries. In the meatpacking industry, wholesalers sell to **jobbers**, essentially small-scale wholesalers, who sell to small retailers.

An industrial-goods manufacturer can use its sales force to sell directly to industrial customers; or it can sell to industrial distributors who sell to industrial customers; or it can sell through manufacturer's representatives or its own sales branches directly to industrial customers, or indirectly to industrial customers through industrial distributors. Zero-, one-, and two-level marketing channels are quite common.

Channels normally describe a forward movement of products from source to user, but reverse-flow channels are also important (1) to reuse products or containers (such as refillable chemical-carrying drums), (2) to refurbish products for resale (such as circuit boards or computers), (3) to recycle products (such as paper), and (4) to dispose of products and packaging.

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