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Introducing

MARKETING CHANNELS



What is a Marketing Channel

1

A marketing channel is a set of interdependent organizations involved in the process of making a product or service available for use or consumption.

2

A marketing channel may also be defined as the external contactual organization that management operates to achieve its distribution objectives

Importance of marketing channels

- The channel is a gatekeeper between the manufacturer and the end-user.
- The channel experience strongly affect the end-user's overall perceptions of brand's image and hence, end-user satisfaction.
- Marketing channels satisfy demand by supplying goods and services at the right place, quantity, quality and price.
- Marketing channels stimulate demand through the promotional activities they carry out.
- Marketing channels can be used to develop a sustainable competitive advantage.
- Marketing channels can be used strategically for differentiation.



Emergence of Marketing Channels

Marketing channels always emerge out of a demand that marketplace needs be better served. However, markets and their needs never stop changing; therefore, marketing channels operate in a state of continuous change and must constantly adapt to confront those changes

Main reasons why channels emerge:

1. Adjustment of assortment discrepancy
2. The need for routinization of transactions
3. The need for contactual efficiency
4. Facilitation of the search process

Adjustment of assortment discrepancy

Independent intermediaries in a marketing channel perform the valuable function of adjusting of assortment discrepancy of goods.

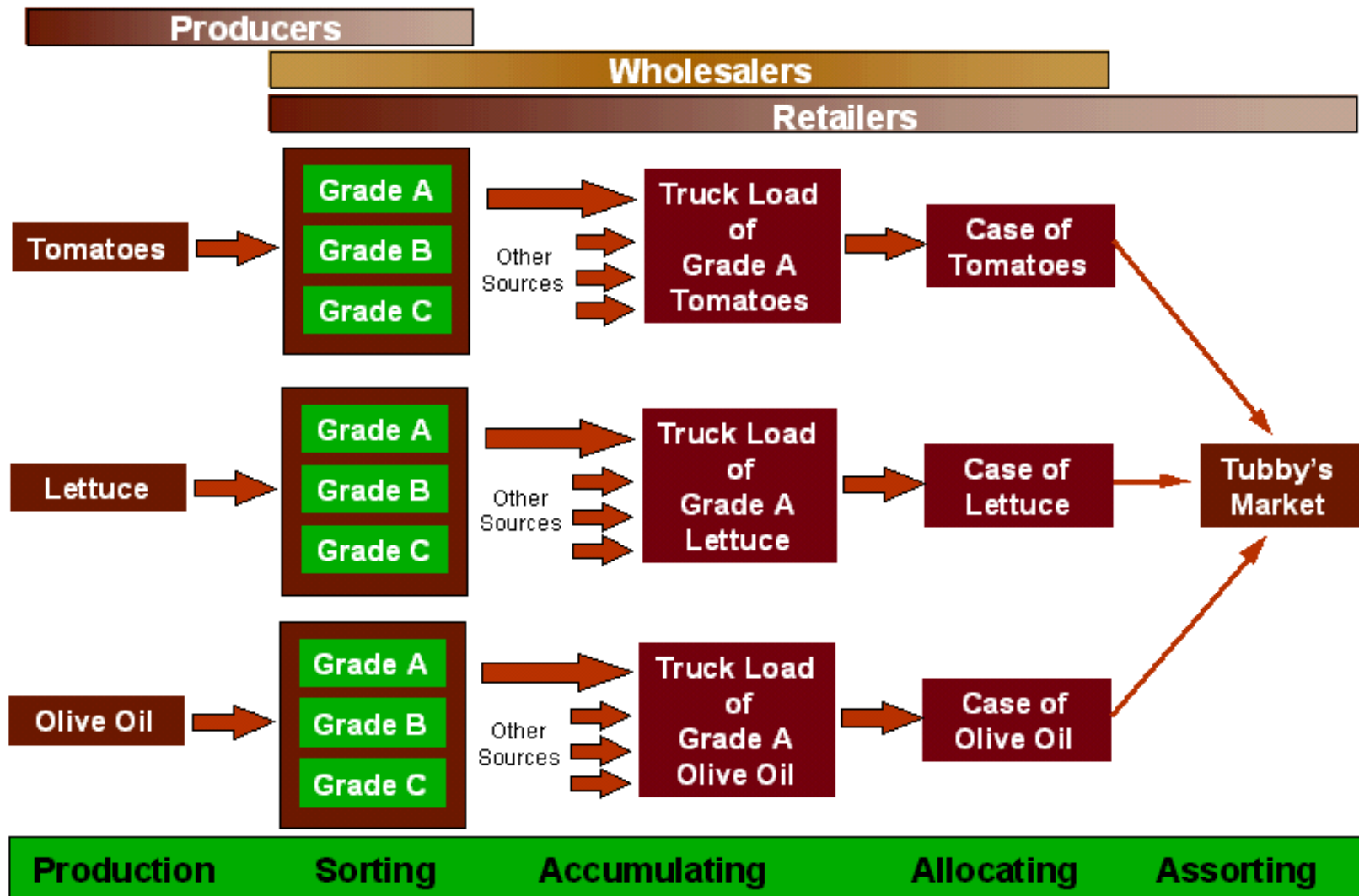
This is valuable because of the natural discrepancy between the assortment of goods and services made by a given manufacturer and the assortment demanded by the end user.

This discrepancy results from the fact that manufacturers typically produce a large quantity of limited variety of goods whereas consumers usually demand for only a limited quantity of a wide variety of goods.



- 1. Sorting:** It involves breaking down a heterogeneous supply into separate stocks (e.g. grade, size or quality) that are relatively homogeneous.
- 2. Accumulation:** It involves buying units of the same product from many small sources of supply to create larger quantities that will be sold to customers preferring to buy in larger amounts.
- 3. Allocation:** Also called breaking bulk, refers when a channel member (usually a wholesaling middleman) buys products from its suppliers in large quantities and then 'breaks' these quantities into smaller lots for resale to its own customers
- 4. Assorting:** This is the building up of an assortment of products for resale in association with each other.

Adjustment of assortment of discrepancy



Routinization of transactions

Routinization refers to the means by which transaction processes are standardized to improve the flow of goods and services through marketing channels.

Behind every transaction between a final customer and seller is a host of many other prior transactions that have to be standardized or made routine if there is to be efficiency in the channel.

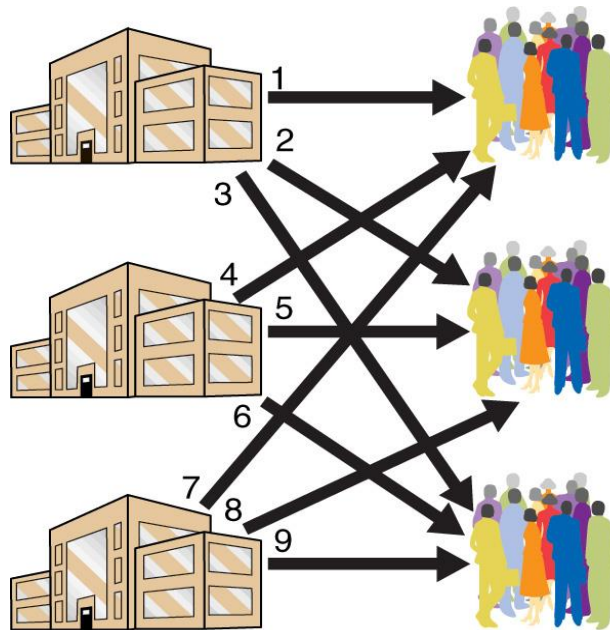


Importance of routinization of transactions

- Creates efficiency as transaction processes become routine, since there is no longer need to negotiate terms of sale or delivery on a transaction- by-transaction basis.
- It leads to the minimization of costs
- Routinization permits channel partners to concentrate more attention on their own core business concerns.
- Furthermore, routinization provides a basis for strengthening the relationship between channel participants.

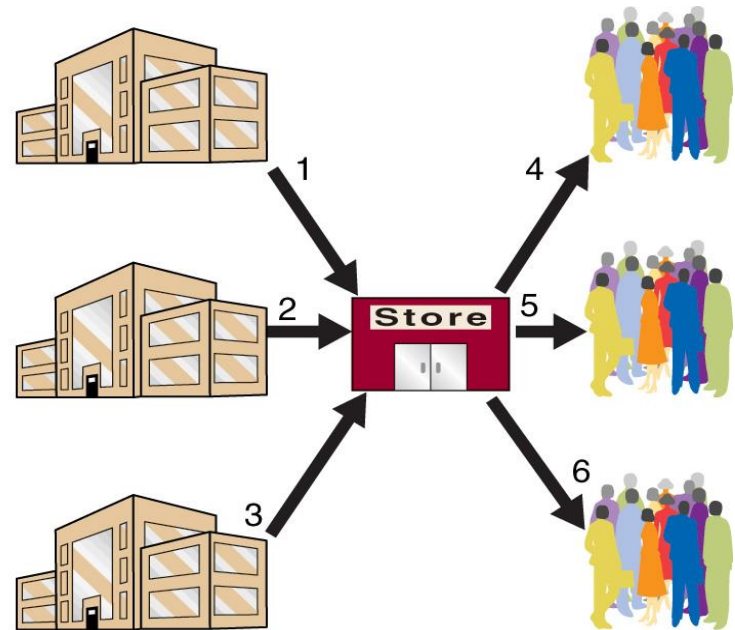
Enabling contactual efficiency

Without channel intermediaries every producer would have to interact with every potential buyer in order to create all possible market exchanges. Marketing channels reduce the number of contacts that manufacturers would have used if they were transact directly with customer.



A. Number of contacts without a distributor

$$M \times C = 3 \times 3 = 9$$



B. Number of contacts with a distributor

$$M + C = 3 + 3 = 6$$



= Manufacturer



= Customer



= Distributor

Enabling contactual efficiency[COST EXAMPLE]

Contactual efficiency can also be achieved through reduction of costs for the manufacturer

A FIRM SELLING A NEW TYPE OF SOLAR PANELS WITH AN OBJECTIVE OF SELLING 500 SOLAR PANELS IN			
Contact Customers directly			
Marketing Effort		Estimated Costs	
1000	Sales Visits	50,000	50,000,000
2000	Phone Calls	1,000	2,000,000
10	Newspaper Ads	250,000	2,500,000
Total Cost			54,500,000
Contact Customers through Retailers			
250	Sales Visits	50,000	12,500,000
500	Phone Calls	1,000	500,000
10	Newspaper Ads	250,000	2,500,000
Total Cost			15,500,000
Contact Customer through Wholesalers			
100	Sales Visits	50,000	5,000,000
200	Phone Calls	1,000	200,000
10	Newspaper Ads	250,000	2,500,000
Total Cost			7,700,000

Facilitating the search process

End users are uncertain about where to find the products or services they want whereas producers are uncertain about how to reach target end users.

Intermediaries function as bridges linking sellers to buyers, and are closer to both producers and users than producers and users are to each other. As a result, the intermediary is in the best position to understand each of their needs and reduce sellers' uncertainty by carefully reconciling what is available with what is needed.



Emerging trends

Disintermediation

Disintermediation occurs when product or service producers cut out intermediaries and go directly to final buyers or when radically new types of channel intermediaries displace traditional ones.

Disintermediation presents both opportunities and problems for producers and re-sellers. Channel innovators who find new ways to add value in the channel can sweep aside traditional resellers and reap the rewards. In turn, traditional intermediaries must continue to innovate to avoid being swept aside.



Emergence of Internet-Based Commerce

A host of new technologies, business models, and innovative firms have opened up a whole new world of possibilities for channels of distribution. This may involve online commerce, mobile commerce, social media. Customers expect sellers to offer their products on many of these platforms. Therefore channel managers need to include them in their channel strategy.



Channel Functions

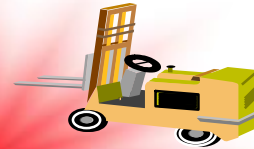
Risk Taking

Information

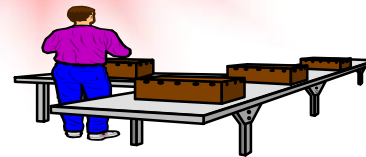
Financing

Promotion

Physical
Distribution



Contact



Negotiation

Matching



THANK YOU

