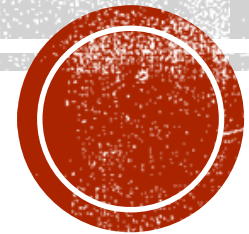# CHANNEL PLANNING & DESIGN

LEARNING OUTCOMES

At the end of this topic you should be able to:

- Recognize the need for channel design decisions.

- Explain how service output levels influence channel design.

- Identify and evaluate the major channel alternatives available to a channel manager.

- Assess the channel structure of different firms.

WHAT IS CHANNEL DESIGN?

- **Channel design** refers to decisions associated with developing new marketing channels where none had existed before, or to modifying existing channels.

- It involves either setting up channels from scratch or modifying existing channels. Channel systems often evolve to meet market opportunities and conditions.

- This definition implies that the marketer is consciously and actively allocating the distribution tasks in an attempt to develop an effective and efficient channel structure.

- Since marketing channels can be used to develop sustainable competitive advantage, using channel design as a strategic tool for gaining a differential advantage should be uppermost in the channel manager's thinking when designing marketing channels.

CHANNEL DESIGN DECISIONS

1. Analyzing Customers Desired Service Output levels

2. Establishing Objectives and Constraints

3. Identifying the major Channel Alternatives

4. Evaluating the Major Alternatives

1 ANALYZING CUSTOMERS DESIRED SERVICE OUTPUT LEVELS

- Customers whether consumers or organisational customers are referred to as the **end-users.**

- Marketing is the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.

- Marketing channels exist to serve **end-users**, therefore designing a marketing channel must start with examining the end-user demands.

- To be able to create value in the channel, the channel manager needs to identify how end-users want to buy on top of an insight in what they want to buy, specifically **service output needs**.

Service Outputs

Service outputs are the productive outputs of the marketing channel that consumers value and desire. They are the duties that when performed reduce end-users' search, waiting time, storage or other costs.

In every market, end-users have varying preferences and demands for service outputs. They may include:
1. Spatial convenience
2. Bulk breaking
3. Waiting or delivery time
4. Product variety and assortment
5. Customer service
6. Information sharing

SPATIAL CONVENIENCE

- The degree to which the marketing channel makes it easy for customers to purchase the product.

- Spatial convenience provided by market decentralization in wholesale and/or retail outlets increases consumers satisfaction by reducing transportation requirements and search costs (e.g. being able to buy milk in the supermarket rather than having to drive out to a farmer to get it).

BULK BREAKING

- Bulk breaking refers to the end-user's ability to buy a desired (possibly small) number of units, even if the product or service was produced in large, batch production lot sizes.

- When the channel system allows end-users to buy in small lots, purchases more easily support consumption, reducing the need for end-users o carry unnecessary inventory

- The more bulk breaking the channel does, the smaller the lot size end-users can buy, and the higher is the channel's service output level.

WAITING OR DELIVERY TIME

- Waiting time is the time that the end-user must wait between ordering and receiving the goods or post sales service. The longer the waiting time, the more inconvenient it is for the end-user, who must plan or predict consumption levels far in advance.

- Usually the longer end-users are willing to wait the more compensation inform of lower prices they receive, where as quick delivery is associated with a higher price paid.

PRODUCT VARIETY AND ASSORTMENT

- Product assortment is the different types of products that a manufacture/wholesaler/retailer offers for sale. Products can be classified in terms of:

- Breadth: This refers to the number of product lines a company produces or a reseller stocks.

- Length: This refers to the number of products in a particular product chain or line.

- Depth: A product line's depth relates to the different versions of the same product that may exist in each product line.

- Consistency: Consistency is the degree to which the product lines relate to each other.

PRODUCT VARIETY AND ASSORTMENT

- Variety describes the different classes of goods that constitute the product offering, namely, the breadth of product lines carried. The term assortment instead refers to the depth of product brands or models offered within each generic product category.

- When the breadth of the variety or the depth of the product assortment available to end-users is greater, so are the service outputs of the marketing channel system, but also so are the overall distribution costs, because offering greater assortment and variety means carrying more inventory.

CUSTOMER SERVICE

- Customer service refers to all aspects of easing the shopping and purchase process for end-users as they interact with commercial suppliers (for business-to-business purchases or retailers (for business to consumers purchases.

- Excellent customer service can translate directly into sales and profit.

INFORMATION SHARING

- Information sharing refers to education provided to end-users about product attributes or usage capabilities, as well as pre- and post purchase services.

2 ESTABLISHING OBJECTIVES AND CONSTRAINTS

Distribution objectives are essentially statements describing the part that distribution is expected to play in achieving the firm's overall marketing and/or corporate objectives.

Distribution objectives should be coordinated with objectives and strategies in the other areas of the marketing mix (product, price and promotion), and with the overall objectives and strategies of the firm.

They should also be stated explicitly (SMART)

Take a look at this example from Dell: Our growth strategy involves reaching more customers worldwide through new distribution channels such as consumer retail, expanding our relationships with value-added resellers, and augmenting select areas of our business through targeted acquisitions.

CHANNEL OBJECTIVES SHOULD BE STATED IN TERMS OF:

- Targeted service output levels

- Product characteristics

- Company policies

- Intermediaries' characteristics

- Competitors' channels and policies

- Environmental factors

3 IDENTIFYING THE MAJOR CHANNEL ALTERNATIVES

- Types of channel participants and members

> Mention any types of marketing components that we have so far covered in this course.

- Responsibilities of channel members
- Number of marketing intermediaries
- Channel member considerations

IDENTIFYING MAJOR CHANNEL ALTERNATIVES
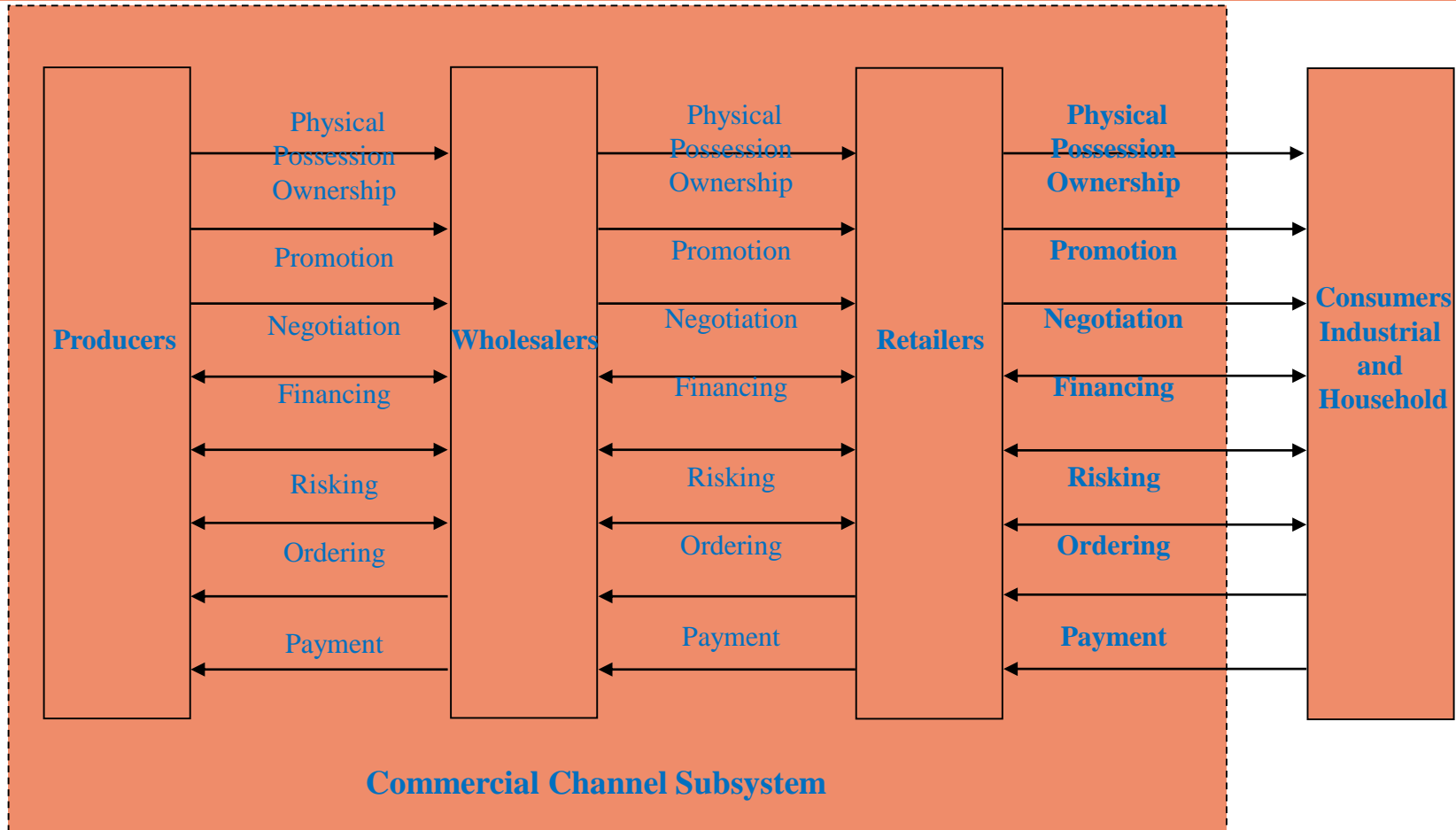## RESPONSIBILITIES [DISTRIBUTION TASKS] OF CHANNEL MEMBERS

- After distribution objectives have been set, a number of distribution tasks (functions) must be performed if the distribution objectives are to be met.

> Discuss any marketing channel flows that we have so far covered in this course.

IDENTIFYING MAJOR CHANNEL ALTERNATIVES
NUMBER OF MARKETING INTERMEDIARIES

- First the channel manager needs to specify the number of levels in a channel, they can range from two levels—which is the most direct (manufacturer → user)—up to five levels and occasionally even higher.

- The channel manager can now specify the level of **intensity** of distribution

- **Intensity** refers to the number of intermediaries at each level of the marketing channel.

- *Intensive distribution* means that as many outlets as possible are used at each level of the channel. Many consumer convenience goods fit this category.

- *Selective distribution* means that not all possible intermediaries at a particular level are used, but rather that those included in the channel are carefully chosen. Consumer shopping goods are often in this category.

- *Exclusive distribution* is a very highly-selective pattern of distribution. In this case only one intermediary in a particular market area is used. Specialty goods often fit into this category.

LETS CONSIDER THESE THREE PRODUCTS BELOW

KRISHNA MATCHBOXES

Which product classification do each of these products belong to?

SOFA SET

What type of distribution objectives would you set for each of these product?

RETAIL DISPLAY SHELF

How many channel levels would you adopt for each of the above products?

4 EVALUATING THE MAJOR ALTERNATIVES

After a company has identified several channel alternatives the next step is to select the one that will best satisfy its long-term objectives.

Each alternative should be evaluated against

- Economic criteria
- Control issues
- Adaptive criteria

EVALUATING THE MAJOR ALTERNATIVES

- Economic criteria

The channel manager will compare the likely sales, costs and profitability of different channel alternatives. What will be the investment required by each channel alternative, and what returns will result?

- Control issues

The company must also consider control issues. Using intermediaries usually means giving them some control over the marketing of the product, and some intermediaries take more control than others. Other things being equal, the company prefers to keep as much control as possible.

- Adaptive criteria

The firm should design channels that are flexible (i.e. they should be able to adopt to environmental changes).