

Chapter 3

Designing the Marketing Channel

1

What is Channel Design

❑ Channel Design :

- It is refers to those decisions involving the development of new marketing channels where none had existed before, or to modification of existing channels.

2

Channel Design

❖ Key distinguished points associated with channel design:

- It is presented as a decision faced by the marketer (same as other marketing mix).
- It is used in the broader sense to include either setting up channels from the scratch or modifying existing channels (reengineering).
- The management has taken a proactive role in the development of the channel.
- The term 'selection' refers to only 1 phase of channel design (selection of the actual channel members).
- It is a strategic tool for gaining a differential advantage.

3

Who Engages in Channel Design



4

A Paradigm of the Channel Design Decision

- ❑ The channel design decision can be broken down into **7 phases or steps**:
 - **Phase 1**: Recognizing the need for a channel design decision.
 - **Phase 2** : Setting and coordinating distribution objectives.
 - **Phase 3** : Specifying the distribution tasks.
 - **Phase 4** : Developing possible alternative channel structures.

5

A Paradigm of the Channel Design Decision

- **Phase 5** : Evaluating the variables affecting channel structures.
- **Phase 6** : Choosing the best channel structure.
- **Phase 7** : Selecting the channel members.

6

Phase 1: Recognizing the Need for a Channel Design Decision

- ❖ Many situations can indicate the need for a channel design decision. **Among them are the following:**
1. Developing a new product/product line .
 2. Aiming an existing product at a new target market (i.e. additional channel from b2b to b2c).
 3. Making a major change in some other component of the marketing mix (i.e. new pricing policy emphasizing lower prices).
 4. Establishing a new firm.

7

Phase 1: Recognizing the Need for a Channel Design Decision

5. Opening up new geographic marketing areas .
6. Facing new environmental changes.
7. Adapting to changing intermediary policies (i.e. if intermediaries begin to emphasize their own private brands, adding new distributors for the manufacturer may be needed.)

8

Phase 2: Setting and Coordinating Distributing Objectives

❖ In order to set distribution objectives that are well coordinated with other marketing and firm objectives and strategies, **the channel manager needs to perform 3 tasks:**

1. Become familiar with the objectives and strategies in the other marketing mix areas .
2. Set distribution objectives and state them clearly.
3. Check to see if the distribution objectives set are consistent with marketing and other general objectives and strategies of the firm.

9


Phase 2: Setting and Coordinating Distributing Objectives

1. Becoming familiar with the objectives and strategies in the other marketing mix areas

Strategic emphasis on the "Freshness"



Uses almost 13,000 drivers/salespeople to deliver products directly to grocery stores

 Short shelf life



 Longer shelf life



10

Phase 2: Setting and Coordinating Distributing Objectives

2. Set distribution objectives and state them clearly.

Example:

IBM → originally was to “have retailers displaying PCs within driving distance of anyone in the U.S. who wanted to buy one”.

Later, when IBM decided to use mail order channels, its distributor objective was broadened to “**make its PCs directly available wherever its customers are**”



11

Phase 2: Setting and Coordinating Distributing Objectives

3. Check to see if the distribution objectives set are consistent with marketing and other general objectives and strategies of the firm.



Phase 3: Specifying the Distribution Tasks (Functions)

- The kinds of tasks required to meet specific distribution objectives must be exactly stated and situationally dependent on the firm.

Example:

- ✓ A manufacturer of high-quality tennis racquets would need to specify distribution tasks **as the following:**



13

Phase 3: Specifying the Distribution Tasks (Functions)

Example:

1. Gather info. on target market shopping patterns.
2. Promote product availability in the target market.
3. Maintain inventory storage to assure timely availability.
4. Gather info. about product features.
5. Sell against competitive products



14

Phase 3: Specifying the Distribution Tasks (Functions)

Example:

7. Process and fill specific customer orders.
8. Transport the product.
9. Provide product warranty service.
10. Establish product return procedure.



15

Phase 4: Developing Possible Alternative Channel Structures

1. Number of levels in the channel

2. Intensity at the various levels

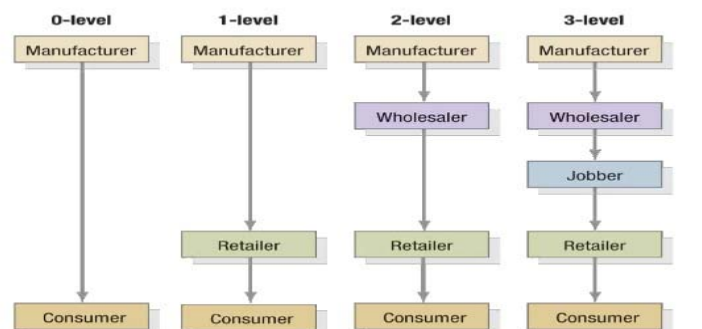
Alternatives Channel

3. Types of intermediaries at each level

16

1. Number of levels in the channel

Levels of Distribution Channel

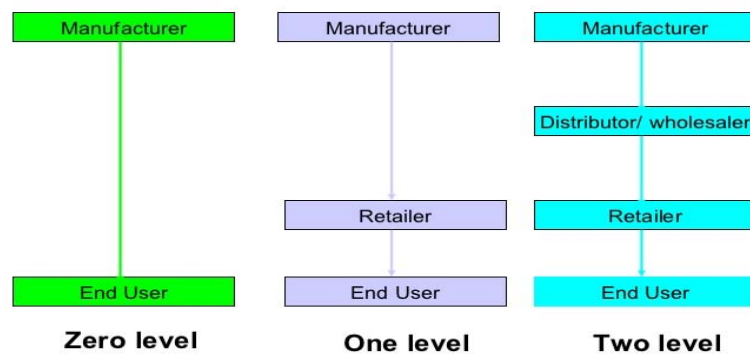


17

1. Number of levels in the channel

Summarize Expectations...

Channel Levels



SDM- Ch 9

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35

18

1. Number of levels in the channel



Phase 5: Evaluating the Variables Affecting Channel Structure

❑ ***Categories of Variables Affecting Channel Structure:***

1. Market Variables
2. Product Variables
3. Company Variables
4. Intermediary Variables
5. Environmental Variables
6. Behavioral Variables

Phase 5: Evaluating the Variables Affecting Channel Structure

1. Market Variables:

Market Geography	➡	Location, geographical size, & distance from producer
Market Size	➡	Number of customers in a market
Market Density	➡	Number of buying units (consumers or industrial firms) per unit of land area
Market Behavior	➡	Who buys, & how, when, and where customers buy

21

Phase 5: Evaluating the Variables Affecting Channel Structure

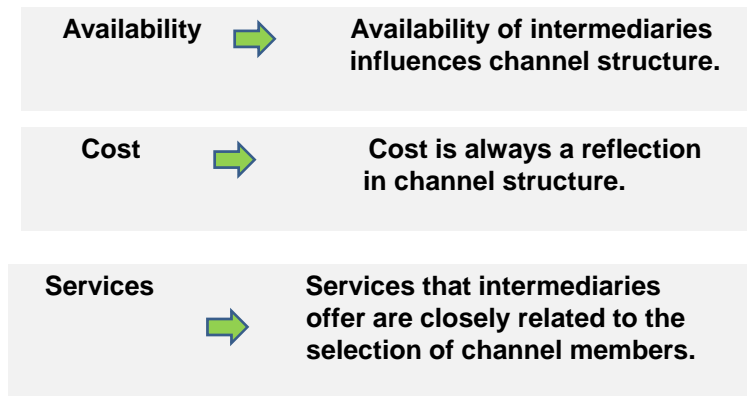
2. Company Variables:

Size	➡	The range of options is relative to a firm's size
Financial Capacity	➡	The greater the capital, the lower the dependence on intermediaries
Managerial Expertise	➡	Intermediaries are necessary when managerial experience is lacking
Objectives & Strategies	➡	Marketing & objectives may limit use of intermediaries

22

Phase 5: Evaluating the Variables Affecting Channel Structure

3. *Intermediary Variables:*



23

Phase 5: Evaluating the Variables Affecting Channel Structure

4. *Environmental Variables:*



24

Phase 6: Choosing the “Best” Channel Structure

❖ Approaches for Choosing the “Best” Channel Structure :

- ✓ Financial Approach.
- ✓ Transaction Cost Analysis Approach.
- ✓ Management Science Approaches.

25

Phase 7: Selecting the channel members

- ❖ The selection of channel members is the last (seventh) phase of channel design.
- **The selection process consists of three basic steps:**
 - ✓ 1. finding potential channel members,
 - ✓ 2. applying selection criteria to determine whether these members are suitable, and
 - ✓ 3. securing potential members for the channel.

26