

Chapter 2

THE CHANNEL PARTICIPANTS

Chapter Objectives

This chapter defines the different and various types of channel participants and the distribution tasks they perform. It is important to note to the students that not all channel members perform *all* of these functions and that various terms/nomenclature is assigned to different participants. The chapter defines wholesalers/retailers/brokers/manufacturing agents and other channel members. The chapter makes a point of *excluding* consumers (or final users) as members of the channel discussions. The chapter closes discussing the why, how and implication of wholesale channel concentration and its affect on manufacturers and producers.

Learning objectives

- 1) Familiarization of the classification of the major participants in the marketing channels.
- 2) Understanding why producers and manufacturers find it necessary to shift many of the distribution tasks to intermediaries.
- 3) Identify the major types of wholesalers.
- 4) Awareness of the major trends in wholesaling structure, including patterns on size and concentration of wholesaling.
- 5) Recognize the value of distribution tasks performed by the majority of wholesalers.
- 6) Appreciate the complexity of the retail structure and familiarize the student with the different approaches used to classify retailers.
- 7) Identify the major trends occurring in retail structure with regards to size and concentration.
- 8) Identify the distribution tasks performed by retailers.
- 9) Identify the retailer's changing role in the marketing channel.
- 10) Appreciate the role played by facilitating agencies in marketing channels.

Chapter Topics

- 1) An Overview of the Channel Participants
- 2) Producers and Manufacturers
- 3) Intermediaries
- 4) Retail Intermediaries
- 5) Facilitating Agencies

Chapter Outline

An Overview of Channel Participants

The three basic divisions of the marketing channel are: producers and manufacturers, intermediaries and final users.

- Channel participants are defined as participants that engage in negotiatory functions linked together by the flows of negotiation or ownership.
- Producers and manufacturers and intermediaries are further broken down into wholesale and retail intermediaries and consumer and industrial users.
- Final users are defined as **target markets** and are excluded from further discussions of channel members.

Producers and Manufacturers

Producers and manufacturers consist of firms that are involved in the extracting, growing, or making of products. For the needs of the customers to be satisfied *products must be made available to customers when, where and how they want them.*

This theme is expanded to illustrate that producers and manufacturers often do not have the expertise in distribution as they do in manufacturing or producing.

The section then goes into a detailed explanation regarding the firm Binney & Smith, the makers of Crayola® crayons. Figure 2.2 deals with hypothetical average cost curves for Binney & Smith.

The message to be derived from Figure 2.2 is that Binney & Smith would never be able to sell enough crayons to individual consumers to absorb the enormous fixed costs associated with the performance of the distribution task.

Intermediaries then because they distribute the products of many producers *are able* to spread their fixed costs and achieve the desired economies of scale. *Producing and manufacturing firms often face high average costs for distribution tasks when they attempt to perform them by themselves.*

Intermediaries

Key Terms and Definitions

- **Intermediaries:** Are independent businesses that assist producers and manufacturers in the performance of negotiatory functions and other distribution tasks.
- **Wholesalers:** Consist of businesses that are engaged in selling goods for resale or business use to retail, industrial, commercial, institutional, professional, or agricultural firms, as well as to other wholesalers.

A) Types and Kinds of Wholesalers

Three major types of wholesalers as defined by the *Census of Wholesale Trade*. These are:

1. Merchant wholesalers
 2. Agents, brokers, and commission merchants
 3. Manufacturer's sales branches and offices
1. Merchant Wholesalers are firms engaged primarily in buying, taking title to, usually storing, and physically handling products in relatively large quantities and then reselling the products in smaller quantities to others. They go under many different names such as: wholesaler, jobber, distributor, industrial distributor, supply house, assembler, importer, exporter, and others.
 2. Agents, brokers, and commission merchants are independent middlemen who do not take title to the goods in which they deal, but who are actively engaged in the buying and selling functions on behalf of others. They are usually compensated in the form of commissions on sales or purchases. They also go under other names such as selling agents and import and export agents.
 3. Manufacturer's sales branches and offices are owned and operated by manufacturers but are physically separated from the manufacturing plants.

B) Structure and Trends in Wholesaling

Figures 2.4 and 2.5 show the trends in wholesaling. The key point to emphasize here is that the *absolute sales of all three types of wholesalers increased substantially over a ten-year period from 1987 – 1997*.

C) Size and Concentration in Wholesaling

Most wholesalers (40%) are small businesses with sales less than \$1,000,000 in annual revenue.

D) Distribution Tasks Performed by Merchant Wholesalers

Modern well-managed merchant wholesalers perform the following types of distribution tasks for producers and manufacturers:

1. Providing market coverage
 2. Making sales contacts
 3. Holding inventory
 4. Processing orders
 5. Gathering market information
 6. Offering customer support
1. Market coverage is performed because the market for products consists of many customers spread across large geographical areas. Table 2.4 shows the percentage of manufacturers use of merchant agents.

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2. Making sales contact is a valuable service provided because the cost of maintaining an outside sales force for many firms is prohibitively high. This becomes even more apparent if the firm wishes to sell outside of the United States.
3. “Holding” inventory is when the wholesaler takes title to and possession of the producer and manufacturer’s product. This can help the producers and manufacturer’s financial burden and help their production process.
4. Processing orders is very helpful to producers and manufacturers because many customers purchase in small quantities. The wholesaler can “break down” a large order of product into smaller more manageable pieces.
5. Gathering market information: Wholesalers are close to their customers through frequent sales contacts. As such, they are in a good position to learn about a customer’s product or service requirements. Such information then can aid producers and manufacturers in their product planning, pricing, and the development of new products.
6. Customer support is the final distribution task performed for producers and manufacturers on their behalf. Products may need to be assembled, set up or require technical assistance. This allows the wholesaler to provide “value added services” to the customer thus increasing the competitive advantage of one wholesaler over another. This extra support plays a crucial role in making wholesalers vital members of the marketing channel from the standpoint of both the producers and manufacturers and the customers they serve.

In addition to the above services, merchant wholesalers are equally well suited to perform the following distribution tasks for their customers:

1. Assuring product availability
 2. Providing customer service
 3. Extending credit and financial assistance
 4. Offering assortment convenience
 5. Breaking bulk
 6. Helping customers with advice and technical support
1. Assuring product availability: Assuring that both the quantity and the variety demanded by the customer is available to them when needed.
 2. Providing customer service: Services such as delivery, repairs or warranty work saves the customer time and effort.
 3. Extending credit and financial assistance: Wholesalers provide this service in two ways. First by extending “open” accounts to customers on products sold to them and second by stocking the needed inventory for the customer, thus reducing the financial and space expenses for the customer.

4. Assortment convenience: By bringing together a variety of products from hundreds of manufacturers, the customer need only place one order for many products.
5. Breaking bulk: Shipping costs dictate the shipment of many products by rail or truckload quantities. Most customers order in single units; thus, the large loads must be “broken” down into single unit sales. A wholesaler provides this service to its customers.
6. Helping customers with advice and technical support: Even the most unsophisticated product may require setup or technical support. The wholesaler, being closer to the customer than either the producer or manufacturer is better able to fulfill this service. This also allows the wholesaler to differentiate its firm from others by these “value-added” services.

E) Distribution Tasks Performed by Agent Wholesalers

These wholesalers do not take title to the products they sell and as a rule do not perform as many distribution tasks as a typical merchant wholesaler. They *do* however perform a variety of key functions.

Manufacturer’s agents (manufacturer’s representatives) specialize in performing the market coverage and sales contact and distribution tasks for manufacturers.

Manufacturing agents generally represent several manufacturers at the same time and operate in a wide range of product and service categories.

Selling agents are another type of agent wholesaler performing more distribution tasks than manufacturing agents. Selling agents may perform many, if not most, of the other distribution tasks such as: market coverage, sales contacts, order processing, marketing information, product availability and customer services.

Brokers, the second major category of non-title-taking wholesalers offers another example of the wide deviation between definitions based on performance presented in marketing literature and actual practice. Figure 2.9 lists the distribution tasks commonly performed by food brokers and serves as an example of the wide range of distribution tasks actually performed.

Finally, the third major category of agent wholesalers, the commission merchant, is mainly significant in the agricultural markets. Their distinction from the other merchant agents is that commission merchants typically *take possession* of the goods although not title.

The key points of these definitions of agents is that the terminology used to define an agent is often misleading as to the actual *services* provided by the agent.

Retail Intermediaries

Key Term and Definition

- Retailers: Consist of business firms engaged primarily in selling merchandise for personal or household consumption and rendering services incidental to the sale of goods.

A) Kinds of Retailers

Retailers in the United States comprise an extremely complex and diverse conglomeration ranging from mom-and-pop neighborhood stores to giant mass merchandising chains such as Wal-Mart®.

B) Structure and Trends in Retailing

Here it is important to note that in 1997 (latest year for which data are available) there were 1,118,447 retail establishments in the United States. This was a decline from 1992 of approximately 27% *but sales increased from \$1.9 trillion to \$2.5 trillion dollars a 32% increase in that same time period. This indicates that the size of the retail establishments has increased significantly. (See Table 2.7)*

C) Concentration in Retailing

From strictly an economic standpoint, large firms increasingly dominate retailing in the United States.

- Figure 2.10 illustrates that large firms represent only 4 percent of all firms *but* represent 80% of total retail sales.
- Figure 2.11 shows that in 1997, the 50 largest firms accounted for 26% of total retail sales.
- Figure 2.12 shows kinds of retailers where the largest four firms account for *at least* 50% of total sales.
- Table 2.8 lists the 100 largest retailers in the United States.

D) Retailers' Growing Power in Marketing Channels

The power and influence of retailers in marketing channels have been growing mainly due to three major developments:

- a) Increase in size and thus buying power
- b) Application of advanced technologies
- c) Use of modern marketing strategies

Since size translates into power, the largest retailers have the capacity to influence the action(s) of other channel members, wholesalers and manufacturers. In many cases, the giant retailers can *literally* dictate to the manufacturers (most manufacturers are considerably smaller than the large retailers) the terms of sale they want and the product offering they require. These large retailers are referred to as “**power retailers**” and “**category killers**”.

Growing size and concentration of retailers is the most fundamental reason for greater retailer power in marketing channels. But two other factors, advanced technology and uses of modern marketing strategies are also important.

Modern retailers have become astute followers and ardent users of many new technologies such as the Internet, scanners, sophisticated inventory management software, shelf management software, forecasting, and consumer shopping trip studies.

Perhaps the most exciting technological development being embraced by retailers is their growing use of the Internet to *enhance* the shopping experience. Conventional retailers are integrating Internet-based E-commerce with their store and catalog operations. A new term called **threetailing** has emerged to describe the convergence of in-store, catalog, and online channels.

Turning now to retailers' growing emphasis on marketing, a fundamental change has been evolving in thinking by leading retailers about the application of marketing strategy in a retail setting. In the past, retailers have been more supplier (vendor) driven than market driven.

To sum up, retailers in the United States have become much larger, more concentrated, more technologically adept, and more sophisticated marketers. As a result, they have become far more powerful members of marketing channels and indeed have come to dominate many of the marketing channels.

The implications of the retailer's new position are potentially ominous. A producer or manufacturer's marketing strategies in the areas of product planning and development, pricing, and promotion will be increasingly constrained and shaped by the considerable demands of the powerful retailers.

F) Distribution Tasks Performed by Retailers

Retailers are especially suited to the following distribution tasks:

1. Offering manpower and physical facilities that enable producers/manufacturers and wholesalers to have many points of contact with consumers close to their places of residence
2. Providing personal selling, advertising, and display to aid in selling supplier's products
3. Interpreting consumer demand and relaying this information back through the channel
4. Dividing large quantities into consumer-sized lots, thereby providing economies for suppliers and convenience for consumers
5. Offering storage, so that suppliers can have widely dispersed inventories of their products at low cost and enabling consumers to have close access to the products of producers/manufacturers and wholesalers
6. Removing substantial risk from the producer/manufacturer by ordering and accepting delivery in advance of the season

Facilitating Agencies

Key Term and Definition

- **Facilitating agencies:** Are business firms that assist in the performance of distribution tasks other than buying, selling, and transferring title.

By properly allocating distribution tasks to facilitating agencies, the channel manager will have an ancillary structure that is an efficient mechanism for carrying out the firm's distribution objectives.

Some of the more common types of facilitating agencies:

- Transportation agencies such as United Parcel Service (UPS®) and common carriers
- Storage agencies which consist mainly of public warehouses that specialize in the storage of goods on a fee basis
- Order processing agencies which are firms that specialize in order fulfillment tasks
- Advertising agencies which offer the channel member expertise in the development of promotion strategy
- Financial agencies such as banks, finance companies and factors that specialize in discounting accounts receivable
- Insurance companies providing the channel member with means for shifting the risks associated with the industry
- Marketing research firms to help the channel member gain relevant marketing information