Chapter 10

PRODUCT ISSUES IN CHANNEL MANAGEMENT

Chapter Objectives

Effective channel management requires that the channel manager be aware of how channel management interfaces with product, price, promotion, and logistics in the marketing channel. Three basic areas of product management are considered: (1) new product planning and development, (2) the product life cycle, and (3) strategic product management. With respect to new product planning and development, the basic product channel management issues are: (1) obtaining channel member input into new product planning, (2) promoting channel member acceptance of new products, (3) fitting new products into channel member assortments, (4) educating channel members about the new products, and (5) making sure new products are trouble free. The product life cycle implications for channel management must also be understood by the channel manager if it is to be used to enhance the life cycle of a product.

Strategic management of a product line is necessary if a product line is to remain viable and profitable. Among the most important of these strategies are: (1) product differentiation strategy, (2) product positioning, (3) product line expansion and contraction strategies, (4) trading-up and trading-down strategies, (5) product brand strategies, and (6) product service strategy. The channel manager must understand the interrelationships of these product strategies with channel management strategies to support the implementation of these product strategies.

Learning objectives

1) Understand the concept of marketing mix variables as resources for channel management.
2) Realize that there are many potential interfaces between product management and channel management.
3) Recognize the most basic interfaces between new product planning and channel management.
4) Know the implications of each stage of the product life cycle for channel management.
5) Be aware of the relationship between strategic product management and channel management.
6) Be cognizant of how product differentiation, product positioning, product line expansion and contraction, trading up and trading down, and product brand strategy relate to channel management.
7) Appreciate the role of marketing channels in providing product service.

Chapter Topics

1) New Product Planning and Channel Management
2) The Product Life Cycle and Channel Management
3) Strategic Product Management and Channel Management
4) Trading Down, Trading Up, and Channel Management

Chapter Outline

Channel management involves more than just motivation management; the channel manager must also be skilled at using the element of the marketing mix to facilitate the administration of the channel. The channel manager needs to use the firm's product, pricing, promotion, and logistics variables to their maximum effect in securing cooperation from channel members. These marketing mix variables may be viewed as *resources*: how these resources are used will affect the performance of the channel members.

The channel manager needs to understand how the other marketing mix variables interface with the channel variable, and what the implications of these interfaces are for channel management. He or she would be in a better position to coordinate all four strategic components of the marketing mix to create the synergy needed to best meet the needs of customers.

Our purpose in this section is not to present a comprehensive inventory of possible product-channel management interfaces. Rather it is to develop a *sense of awareness* on the part of the channel manager about the impact of product decisions on channel management decisions.

The discussions and examples presented are organized around three major areas of product management:

1. New product planning and development
2. The product life cycle
3. Strategic product management

New Product Planning and Channel Management

The development of new products is a challenge faced by virtually all producers and manufacturers. New technologies, changing customer preferences, and competitive forces all contribute to the need to introduce new products.
Achieving success for new product is dependent on may factors. One of these factors is the degree of support a new product receives from independent channel members. It is therefore crucial for the channel manager to analyze the possible channel implications in the planning and development of new products.

Five issues are frequently important for a wide range of channels:

1) What input can channel members provide into new product planning?
2) What has been done to assure that new products will be acceptable to the channel members?
3) Do the new products fit into the present channel members' assortment?
4) Will any special education or training be necessary to prepare the channel members to sell the new products effectively?
5) Will the product cause the channel members any special problems?

1) Encouraging Channel Member Input into New Product Planning

One way of promoting increased enthusiasm and acceptance for new products by channel members is by obtaining some input from them into new product planning. This input may range from soliciting ideas during the idea-generating stage, all the way to getting feedback from selected channel members during the test marketing or commercialization stage.

In fact, input on the size of the product or on packaging changes may be all that is needed to enhance channel member cooperation.

Seeking input from channel members may require that the manufacturer keep channel members informed on new product plans, but many manufacturers are very sensitive about new product plans for competitive reasons.

The bottom line is that channel members are much more likely to enthusiastically support new products that they have played a part in developing.

2) Fostering Channel Member Acceptance of New Products

For new products to be successful, it must be accepted by the final users- whether industrial customers or final consumers. But success is also equally dependent upon acceptance of the new product by the channel members through whom it passes.

Whereas final users are most concerned about how the product will perform when *used*, channel members are much more interested in how the product will *sell*, whether it will be easy to *stock* and *display*, and most important, whether it will be *profitable.*

Looking first at the salability of a new product, the key factor here is the *perceptions* of the channel members. They have to believe that they can sell the product; otherwise, they are not going to be enthusiastic about carrying it.

In getting channel members to accept new products, the issue of ease of stocking and display has become more important than ever, as more and more new products compete for shelf space.

Finally, the importance of the profitability of new products for channel members cannot be overstated. Retailers, and to an increasing extent wholesalers, recognize that the only real asset they have to sell is shelf space. Hence, they are not going to allow this precious space to be clogged by a proliferation of unprofitable products.

3) Fitting the New Product into Channel Member Assortments

The particular mix of products carried by any given channel member is his *assortment.*

The channel member's assortment is analogous to a manufacturer's product mix.

A key consideration on the marketing side should be whether existing channel members will view the new product as an appropriate one to add to *their* assortments.

The channel manager should try to learn whether channel members feel competent to handle their new products. If the channel members feel qualms about adding the new product because they lack experience in handling such products, steps should be taken to allay these fears before introducing the product.

4) Educating Channel Members about New Products

It is not unusual for channel members to need special education or training provided by the manufacturer in order to sell new products successfully. This type of training or the extent of training will of course depend upon the new product offered.

5) Making Sure New Products Are Trouble Free

No channel member likes to take on a new product that will cause trouble. This applies to product problems that arise while the product is still in the channel member's inventory as well as those that may appear soon after the product is sold to the consumer.

Problems with new products can range from being a nuisance that make it more difficult for the channel members to stock and sell, all the way to more serious flaws that can undermine the brand equity that channel members rely on to attract customers.

The Product Life Cycle and Channel Management

Key Term and Definition

- Product life cycle (PLC): A model for describing the stages through which a product passes.

These stages are: introduction, growth, maturity, and decline. Not all products pass through this life cycle and all stages may not be nearly as distinct as those shown.

1) The Introductory Stage and Channel Management

During the introductory stage, strong promotional efforts are needed to launch a product. Thus, during this stage it is imperative for the channel manager to assure that channel members can provide adequate market coverage for the product.

2) The Growth Stage and Channel Management

As the product enters the growth stage, rapid market growth begins. In order to help sustain this growth, the channel manager faces two important challenges:

a. To ensure that product availability is adequate so as not to inhibit growth
b. To carefully monitor channel member actions with respect to competitive products

The basic approach for dealing with the problem of availability is through *monitoring* the product flows as it moves through the channel. Formal and systematic reporting procedures are necessary for effective monitoring.

Figure 10.4 shows an example taken from an NRTI promotional brochure. NRTI is a marketing research firm that specializes in monitoring products in channels.

The second problem, monitoring the channel members' actions with respect to competitive products, is of equal importance to monitoring one's own products. A manufacturer must fight competitors for the channel members' support to sustain the growth of the firm's product.

While it may not be possible to anticipate all possible competitive actions impinging on the channel and to preplan channel strategies for each stage of the PLC, some effort in this direction is certainly possible.

A manufacturer who has developed carefully planned programs for supporting channel members has the edge over the competitor who seeks the support of the same channel members but lacks previously planned programs.

3) The Maturity Stage and Channel Management

The slow growth or saturation characteristics of the maturity stage suggest two strategic emphases for channel management.

a. Extra emphasis should be put on making sure the product is more desirable for channel members.
b. At the same time, possible changes in channel structure, particularly the selection of different types of intermediaries, should be investigated to forestall the decline stage and possibly create a new growth stage.

In the face of slower growth or near-saturation, the sales and turnover rate for the product will decline for many of the channel members.

In order to lessen the severity of this pattern, the channel manager must take steps to make the product *more* attractive to channel members. Such tactics as extra trade discounts, advertising allowances, special packaging deal discounts, and more liberal return policies are appropriate.
A more comprehensive and long-term channel strategy for the maturity stage is to change the channel structure through which the product is distributed. In some cases, this may lead to a renewed growth stage for the product.

While the channel manager should not attempt to change channels for a product as a matter or course, an investigation of this possibility is probably worth the effort.

4) The Decline Stage and Channel Management

Total demise is usually imminent when a product is in the decline stage. Given this situation, the channel manager should focus attention on two final channel implications:

a. Can marginal outlets be phased out quickly to avoid further profit erosion?
b. Will dropping the product cause an adverse reaction on the part of existing channel members?

Even when a product has reached the decline stage, a substantial number of channel members may still be carrying it. Many of them will be low-volume, often ordering in very small quantities. The high-volume members will have already dropped the product.

This leaves the channel manager with a high-cost, low-volume channel for the product, which further erodes an already deteriorating profit picture.

Thus, the channel manager should consider whether the very-low-volume outlets should be phased out. Basically, this requires an analysis of the revenues produced by each outlet, weighed against the cost of servicing each of them. Unfortunately, the procedure for making this kind of analysis is not clear-cut.

Strategic Product Management and Channel Management

Successful product strategies depend on a variety of factors such as the quality, innovativeness, or technological sophistication of the products themselves, the capabilities of the managers charged with overseeing the product line, the financial capacity, and willingness of the firm to provide the promotional support often necessary to implement product strategies and several other factors. One of these other factors is the role played by channel members in implementing product strategies.

Thus, the success of the manufacturer's product strategies is, at least to some extent – and sometimes to a very great extent – dependent upon the effectiveness of the channel members in carrying out the manufacturer's product strategies.

1) Product Differentiation and Channel Management

Product differentiation is probably the most widely used product strategy. In essence, product differentiation represents the manufacturer's attempt to portray a product or products as being different from competitive products and therefore more desirable to purchase, even though the price may be higher.

The real key to creating a differentiated product is to get the consumer to *perceive* a significant difference.

Channel members may be called upon to help create a differentiated product. The kinds of stores the product is sold in, the way it is displayed and sold, and the services provided can be critical in creating a differentiated product.

Two channel management implications for product differentiation strategy can be derived.

a. First, when product differentiation strategy is affected by *who* will be selling the product, channel managers should try to select and help develop channel members who "fit" the product's image.
b. Second, when product differentiation strategy is influenced by *how* the product is sold at retail, the channel manager should provide retailers with the kinds of support and assistance needed to properly present the product.

2) Product Positioning and Channel Management

Product positioning refers to a manufacturer's attempt to have consumers perceive the products in a particular way relative to competitive products. If this is accomplished, the product is then "positioned" in consumers' minds as an alternative to other products that they currently use.

While successful product positioning strategy depends upon many factors, the types of stores selling the product and how they display and promote it can be very important.

There are three implications for channel management in product positioning.

a. First, the possible interfaces between the product positioning strategy and where the product will be displayed and sold to consumers should be considered *before* the positioning strategy is implemented.
b. Second, retailer support in the form of proper merchandise presentation and display should be elicited before attempting to implement the positioning strategy.

c. Finally, a sufficient "war chest" of funds should be available to provide retailers with attractive incentives to gain strong retailer acceptance in support of the positioning strategy.

3) Product Line Expansion/Contraction and Channel Management

At one time or another, most manufacturers find it necessary to expand or contract their product lines, often simultaneously.

Such product line expansion and pruning strategies can create problems in dealing with channel members because it is very difficult to find a "perfect" blend of products in the line that will satisfy all channel members.

So, from a channel management standpoint, product line expansion and pruning strategies present the manufacturer with a delicate balancing act of channel member satisfaction and support for reshaped product lines.

Moreover, with the growing emphasis by channel members on *category management* (the management of product categories as business units) the demands made on manufacturers by channel members to have the right mix of products are becoming greater than ever.

While there are no simple clear-cut approaches for always having the right mix of products to satisfy even more demanding channel members, several points are worth considering when dealing with the interface between product line expansion and contraction and channel strategy. These are:

a. It makes good sense to incorporate channel member views before the expansion or contraction of product lines.
b. The manufacturer should attempt to explain to channel members the rationale underlying product line expansion or deletion strategies.
c. The manufacturer should try to provide adequate advance notice of significant product line changes to channel members to allow them sufficient time to prepare for such changes.

Trading Down, Trading Up, and Channel Management

Key Terms and Definitions

- Trading down: Refers to the addition of lower-priced products or a product line to a product mix than had typically been offered in the past.
- Trading up: Essentially the opposite – adding products or a product line that are substantially more expensive than other products in the line or mix.

Trading down and trading up can be high-risk strategies because they may reflect profound departures from the company's normal base of operations.

The manufacturer may now face:

1. new markets about which it may know very little
2. new competitors it has not faced before
3. quite possibly new channel members and/or new problems with existing channel members

When making a decision to trade up or trade down, from a channel management perspective there are two problems to consider.

The first is whether existing channel members provide adequate coverage of the high-end or low-end market segments to which the new product is aimed.

If the answer is that they do not, then new channel members will have to be added and/or the basic design of the channel may have to be changed.

The second problem is: Will the channel members have confidence in the manufacturer's ability to successfully market the trade-up or trade-down product?

Channel members, whether at the wholesale or retail levels, develop certain perceptions about the kinds of products with which particular manufacturers are associated.

1) Product Brand Strategy and Channel Management

Most manufacturers have several options when considering product brand strategies. They might sell their products (1) under one national brand, (2) under several national brands (a "family" of brands), (3) under private brands, or (4) under both national and private brands.

Any of these options may at certain times pose channel management problems. But it is the fourth option, selling under both national and private brands, that presents the most difficult channel management problems, because, when the manufacturer sells under both national and private brands, direct competition with channel members may result.

Such dual distribution or multimarketing strategies are becoming increasingly common as national brand manufacturers seek to make use of excess production capacity and compete against private brand products made for large chain retailers.

If the competition becomes too direct, then this dual product brand strategy can create serious problems between the manufacturer and its channel members.

Some attention paid to such channel issues *before* embarking on a dual national/private brand strategy will help alert the manufacturer to the need for setting clear channel management policies to guide dual brand strategies. Examples of such policies are:

a. Not selling both the national and private brand versions of the products to the same channel members.

b. Selling the national and private brands versions of the product in different geographical territories.
c. Making the products physically different enough so that the direct competition between the national and private brand versions of the product will be minimized.

2) Product Service Strategy and Channel Management

Many products require service after the sale. Manufacturers of these products should make some provision for after-sale service, either by offering it directly at the factory, through their own network of service centers, through channel members, through authorized independent service centers, or by some combination of these.

A marketing channel that provides for effective and efficient delivery of the product is still not fully effective or efficient if it does not provide for product service.

If good product service is to be provided by the channel, however, the manufacturer must view the issue of product service as a basic strategic issue in product management and channel management. Indeed, the appeal of the product can be significantly enhanced through a strong service image.

The manufacturer who expects strong cooperation from channel members in providing service must make it clear to channel members that service is an important part of the overall product strategy, and provide incentives for the channel members to cooperate in the service program.