Marketing 6

Gabriela Avram
Distribution Channels
Distribution Channels for Consumer Goods

1. Producer -> Consumer
2. Producer -> Retailer -> Consumer
3. Producer -> Wholesaler -> Retailer -> Consumer
4. Producer -> Agent -> Wholesaler -> Retailer -> Consumer
Establishing an Efficient Supply Chain

Gaining access to distribution outlets is not necessarily easy. In the consumer food products sector, many brands vie with each other for prime positions on supermarket shelves.

Exhibit 9.1  Eye-level is the best position to have in a shopping aisle and brands will compete aggressively to gain and hold these positions. Eye tracking technology is increasingly used by researchers to understand what captures the attention of customers.
Producer Direct to Consumer

This option may be attractive to producers because it cuts out distributors’ profit margins.
Distribution Channels for Industrial Goods
Distribution Channels for Industrial Goods

1. Producer → Industrial Consumer
2. Producer → Agent → Industrial Consumer
Distribution Channels for Industrial Goods

Producer → Agent → Industrial consumer

Producer → Distributor → Industrial consumer

Producer → Industrial consumer
Industrial wholesalers

- https://www.demesne.ie/
- https://www.wholesaleindustrialsupply.com/
- https://www.edarley.com/
Distribution Channels for Industrial Goods

Producer → Agent → Distributor → Industrial consumer

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Producer → Agent → Distributor → Industrial consumer
Distribution channels for services are usually short, either direct or via an agent:
Channel Strategy

Channel strategy decisions involve the selection of:

1) the most effective distribution channel,
Channel Strategy

Channel strategy decisions involve the selection of:

1) the most effective distribution channel,
2) the most appropriate level of distribution intensity, and
Channel Strategy

- Channel strategy
  - Channel selection
  - Distribution intensity
  - Channel integration
Channel Strategy

- Channel strategy
  - Channel selection
    - Market factors
      - Producer factors
      - Competitive factors
  - Distribution intensity
  - Channel integration
Channel Strategy

Channel strategy

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- Market factors
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Distribution intensity
- Intensive
- Selective
- Exclusive

Channel integration
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Channel integration
- Conventional marketing channels
- Franchising
- Channel ownership
Channel Selection

Product factors

Market factors

Producer factors

Competitive factors

Channel selection
Distribution Intensity

- Intensive distribution: aims to provide saturation coverage of the market
- Selective distribution enables market coverage to be achieved. A producer uses a limited number of outlets in a geographical area to sell its products.
- Exclusive distribution is an extreme form of selective distribution in which only one wholesaler, retailer or business-to-business distributor is used in a particular geographic area.
Vending Machines

Exhibit 9.3 The use of vending machines meaning that its products are available everywhere has been a big part of the Coca Cola success story. Its innovative 'happiness machine' campaign which involves machines giving out a range of free gifts has been a strong source of viral promotion and positive social media coverage.
Channel Integration

Channel integration can range from conventional marketing channels – comprising an independent producer and channel intermediaries – through a franchise operation to channel ownership by a producer.
A franchise is a legal contract in which a producer and channel intermediaries agree each member’s rights and obligations.
Four Levels of the Franchising Distribution Chain

1 Manufacturer and retailer: the car industry is dominated by this arrangement. The manufacturer gains retail outlets for its cars and repair facilities without the capital outlay required with ownership to consumers.
Motor dealership franchise
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2 Manufacturer and wholesaler: this is commonly used in the soft drinks industry. Manufacturers grant wholesalers the right to make up and bottle their concentrate in line with their instructions, and to distribute the products within a defined geographic area.
Soft drink canning franchise
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3 Wholesaler and retailer: this is not as common as other franchising arrangements, but is found with car products and hardware stores. It allows wholesalers to secure distribution of their product to consumers.
Wholesaler and retailer franchise
Wholesaler warehouse
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4 Retailer and retailer: often used when seeking to expand geographically by means of a franchise operation, often with great success.
Channel Ownership

Channel ownership brings with it total control over distributor activities and establishes a corporate vertical marketing system. By purchasing retail outlets, producers control their purchasing, production and marketing activities.
Channel Management

Channel management

- Selection
- Motivation
- Evaluation
- Managing conflict
Channel conflict

Channel conflict is a situation where one channel member sees another channel member as behaving in a way that prevents it from achieving its goals.

Major causes of conflict are:
- Goal incompatibility
- Roles and rights ambiguity
- Differing perceptions of reality
Three kinds of conflict

- Vertical channel conflict
- Horizontal channel conflict
- Multichannel conflict
Managing channel conflict

- Regular communication
- Forming dealer councils
- Arbitration and mediation
Major Store and Non-store Types

Retailers
Major Store and Non-store Types
Major Store and Non-store Types

Retailers
Major Store and Non-store Types

Retailers
Major Store and Non-store Types
Major Store and Non-store Types

Retailers

- Supermarkets
- Department stores
- Speciality shops
- Discount houses
- Convenience stores
- Catalogue stores
- Mail order
- Automatic vending
- Online retailing
IKEA: A Successful Category Killer

Exhibit 9.5 This clever advert is by the Swedish firm IKEA, a hugely successful category killer in the furniture industry.
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Key Retailing Marketing Decisions

- Price
- Retail marketing decisions
- Store location
- Retail positioning
- Product assortment and services
Physical distribution
Physical distribution

Physical distribution refers to outgoing logistics – the forward movement of products from a firm’s manufacturing facility to customers.
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- Physical distribution refers to outgoing logistics – the forward movement of products from a firm’s manufacturing facility to customers.
- It involves a defined network of transportation links, warehousing and storage and finally delivery to the destination in a cost-effective manner within the desired time.
Objectives of physical distribution

- Deliver right goods to the right customer at the right time and place
- Enhance sales
- Decrease costs
  - Achieve cost/service trade-offs
    - Efficiency vs service
    - Effectiveness vs cost
Why physical distribution is important

- It creates utilities of time and place
- It accounts for a major portion of marketing costs - from 10% to 30% of sales price
- It represents large share in the national wealth in the form of facilities
- Determines standard of living – by making products available to a large number of people, at a lower cost
Components of Physical Distribution

- Order processing
- Inventory management
- Materials Handling
- Warehousing
- Transport
Order processing

- Receiving and processing orders and transmitting sales information is an important step in physical distribution
  - Verifying customer credibility
  - Checking for any outstanding payment
  - Preparing invoice
  - Sending the consignment and information
Inventory management involves building and maintaining enough stock to meet customer demand.
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- The following formula can be used when calculating when to reorder:
  
  - Reorder point = (Order lead time x Usage rate) + Buffer stock
Inventory management and control

- A major tool for reducing costs – the less stock you have to hold, the lower your costs. But out-of-stock instances can lose sales and customers
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- Just-In-Time
  - Reliability of suppliers
  - Close communication between suppliers and customers
  - Attention to quality
  - Adequate storage facilities and transport options
Materials handling

- Involves placing and handling goods for maximum convenience and minimum damage
Materials handling

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- Common equipment includes:
  - Conveyors
  - Hoists
  - Lifts
  - Cranes
  - Forklifts
  - Trollies
  - Dumpers
  - Trailers
  - Trucks
Unusual packaging has materials handling implications
Unusual packaging
Warehousing

- This is an important aspect of physical distribution. It refers to the design and operation of facilities for storing and moving goods.
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- Warehousing functions include:
  - Receiving goods and assuming responsibility for them
  - Recording quantities, marking and coding items
  - Sorting goods to store in an appropriate area
  - Holding goods in storage
  - Recalling and picking items ordered by customers
  - Collecting for shipment
  - Checking orders dispatched for completeness
Warehousing decisions

- Type of warehouse
- Warehouse layout
- Number of warehouses
- Location of warehouses

Amazon’s Warehouse States

The states on this map have warehouses that store and ship inventory for Amazon FBA Sellers.

DE and NH have No sales tax

Virginia’s Department of Taxation has ruled that storing inventory in a fulfillment center does not create nexus.
Transportation

- There are five main transportation modes:
  - Road
  - Rail
  - Waterways
  - Air
  - Pipeline
Selection of the transport mode depends on:

- Nature of the product
- Affordability
- Availability
- Customers’ specifications
- Competitors’ transportation mode
Typical means of transporting various products

<table>
<thead>
<tr>
<th>Rail</th>
<th>Road</th>
<th>Water</th>
<th>Air</th>
<th>Pipeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>Paper goods</td>
<td>Oil/Petrol</td>
<td>Overnight mail</td>
<td>Oil</td>
</tr>
<tr>
<td>Lumber</td>
<td>Clothing</td>
<td>Iron ore</td>
<td>Flowers</td>
<td>Gas</td>
</tr>
<tr>
<td>Cars</td>
<td>Computer goods</td>
<td>Chemicals</td>
<td>Emergency parts</td>
<td>Chemicals</td>
</tr>
<tr>
<td>Steel</td>
<td>Livestock</td>
<td>Grain</td>
<td>Instruments</td>
<td>Processed coal</td>
</tr>
<tr>
<td>Grain</td>
<td>Cement</td>
<td>Bauxite</td>
<td>Perishable food</td>
<td>Water</td>
</tr>
</tbody>
</table>
Examples of physical distribution objectives

- To deliver at least 95% of orders within 3 days of receipt
- To fill orders with 100% accuracy
- To answer customer questions about order status within 30 minutes
- Ensure damage to merchandise in transit is less than 1% of items
- Turn-around damaged merchandise within 24 hours
Significance of physical distribution in marketing

- If the total physical distribution costs are taken, transportation accounts for 45 percent; warehousing 25 percent; inventory carrying costs 10 per cent; receiving and shipping costs 5 percent; packing 6 percent; administration 5 per cent and order processing 4 percent.

- Therefore, a well-managed physical distribution system can be instrumental in slashing these costs, by optimising the trade-offs involved.

- It has been described as ‘the last frontier for cost savings.’
Integrated Marketing Communications 1: Mass Communications Techniques
Marketing communications

- One of the most fascinating aspects of marketing
  - What kinds of messages should we create?
  - How should we communicate them?
- There are two major classes of tools available to the marketer:
  - Mass communications techniques like advertising or sponsorship
  - Direct communications techniques like mobile marketing and social networking.
Promotional Mix

The seven main techniques available to the marketer are known as the “promotional mix”; these are:

1. Advertising
2. Sales promotion
3. Publicity
4. Sponsorship
5. Direct marketing
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3. Publicity
4. Sponsorship
5. Direct marketing
6. Digital marketing
7. Personal selling
Key Characteristics of Seven Promotional Mix Tools

• Advertising
  – Awareness-building. Can reach a wide audience quickly
  – Repetition means brand message can be clearly communicated – TV particularly good for this
  – Helps to legitimise the sales effort & product
  – Impersonal
  – Poor at closing the sale
Key Characteristics of Seven Promotional Mix Tools

• Sales promotion
  – Incentives can provide a quick boost to sales
  – Effects are short-term
  – Overuse may damage the brand image
Key Characteristics of Seven Promotional Mix Tools

- Publicity
  - Highly credible. Message comes from a third party. Not seen as coming from the company.
  - Free – no cost for placing it in media
  - Little control. Message may not get used by media or may get distorted.
Key Characteristics of Seven Promotional Mix Tools

- Sponsorship
  - Very useful for brand building and generating publicity
  - Opportunity to entertain business partners
  - Used to demonstrate goodwill towards the local community or society in general
  - Popular due to the fragmentation of traditional media like TV.
Key Characteristics of Seven Promotional Mix Tools

- Direct marketing
  - Targets individual customers
  - Communication can be personalised
  - Easy to measure effectiveness
  - Can build a relationship through continuous contact
  - Less visible to competitors
  - Response rates may be low
  - Can cause consumer annoyance
  - [https://www.youtube.com/watch?v=KLKyTzAOfwI](https://www.youtube.com/watch?v=KLKyTzAOfwI)
Key Characteristics of Seven Promotional Mix Tools

- Digital marketing
  - Global reach at relatively low cost
  - Easy to measure effectiveness
  - A dialogue between companies and their customers
  - Catalogues and prices can be changed cheaply and quickly
  - Convenient way to search for and buy products
Promotional Mix

Other techniques include:

- Exhibitions
- Events
- Product placement in
  - Movies
  - Songs
  - Video games
- More recently ambient marketing, guerrilla marketing and buzz marketing
Integrated Marketing Communications

The following five considerations will have a major impact on the choice of the promotional mix:

1. Cost and the resources available
2. Market size and concentration
3. Customer information needs
4. Product characteristics
5. Push versus pull strategies (a distribution push/a consumer pull strategy)
Integrated Marketing Communications

The system by which companies co-ordinate their marketing communications tools to deliver a **clear, consistent, credible, and competitive message** about the organization and its products.
The Communication Process
Stages in Developing an Integrated Communications Campaign

Figure 10.2 A framework for implementing integrated marketing communications

1. Marketing strategy
2. Positioning strategy
3. Communications decisions
   1. Identify target audience(s)
   2. Set communication objectives
   3. Create message(s)
   4. Select promotional mix
   5. Set promotional budget
4. Execute integrated marketing communications strategy
5. Evaluate integrated marketing communications strategy
Advertising

- Strong theory of advertising
  - Awareness, Interest, Desire, Action (AIDA)

- Weak theory of advertising
  - Awareness, Trial, Reinforcement (ATR)
Developing Advertising Strategy

- Analysis of target audience
- Define advertising objectives
  - Create awareness
  - Stimulate trial
  - Position products in the mind of consumers
  - The correction of misconceptions
  - Reminding customers
  - Providing support
- Set the budget
  - Percentage of sales method
  - Competitive parity method
  - Affordability method
  - Objective and task method
Developing Advertising Strategy..continued

- Decide on the advertising message
- Make media decisions
- Execute the campaign
- Evaluate advertising effectiveness
## Media Choices

<table>
<thead>
<tr>
<th>Media class</th>
<th>Media vehicle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Television</td>
<td>Channel 4 News; Eurosport</td>
</tr>
<tr>
<td>Radio</td>
<td>Classic FM; Star FM</td>
</tr>
<tr>
<td>Newspapers</td>
<td>The Guardian; El Mundo</td>
</tr>
<tr>
<td>Magazines – Consumer</td>
<td>Hello; Glamour</td>
</tr>
<tr>
<td>– Business</td>
<td>Marketing Week; Construction News</td>
</tr>
<tr>
<td>Outdoor</td>
<td>Billboards; bus shelters; London Underground</td>
</tr>
<tr>
<td>Internet</td>
<td>Google Adwords; YouTube videos; Facebook advertising</td>
</tr>
<tr>
<td>Cinema</td>
<td>Particular movies</td>
</tr>
<tr>
<td>Exhibitions</td>
<td>Motor Show; Ideal Home</td>
</tr>
<tr>
<td>Product placement</td>
<td>TV programmes, songs, video games</td>
</tr>
<tr>
<td>Ambient</td>
<td>Street pavements; buildings</td>
</tr>
</tbody>
</table>
SHARE OF GLOBAL ADVERTISING SPEND BY MEDIA, 2016-2018

Integrated Marketing Communications 2
Sales Promotion

Some of the key reasons for the popularity of sales promotion:

– Increased impulse purchasing
– The rising cost of advertising and advertising clutter
– Shortening time horizons
– Competitor activities
– Measurability
What are sales promotions?

- Sales promotions are incentives designed to trigger action.
- They tend to influence the later stages of the buying process, as opposed to advertising, which tends to influence the earlier stages.
- They are designed to have a direct influence on customer behaviour.
- They may be aimed at influencing consumers or marketing intermediaries.
There are three main categories

- Consumer promotions (premiums, gifts, prizes and competitions)
- Trade promotions (special terms, POS materials, free merchandise, competition prizes etc)
- Salesforce promotions (incentive and motivation schemes)
Sales Promotion Strategy

Figure 10.4 Consumer and trade promotions

- Money off
- Bonus packs
- Free samples
- Prize promotions
- Loyalty cards
- Free goods
- Allowances
- Competitions
- Price discounts
- Coupons
- Premiums
Coupons

SAVE UP TO 31% HURRY UP EXPIRE SOON!

This coupon is available online. May not be available in store.
Note: Check online if this deal is still available.
Premiums

Buy one get one FREE!

Buy One Cheese or Pepperoni Slice, get the second same free!
Coupon Code: C025
Money-off promotion

A healthier way to start the day!

50c OFFer! 50c OFF voucher inside for Centra Porridge Oats or Special Flakes
Bonus packs
Temporary price discounts
Sampling
Prize promotions
Loyalty cards
Temporary impact on sales?
Problems with sales promotion

- Many sales promotions are not effective brand-building tools
- Overuse of sales promotions can damage a brand's image
- Even though they increase sales, profits may not increase that much
- Sales promotions tend to orient marketing managers towards the short-term
Public Relations and Publicity

Figure 10.5 An organization and its publics

- **Media**
  - TV
  - Press
  - Radio

- **Public**
  - Local communities
  - Pressure groups
  - Opinion leaders
  - General public

- **Government**
  - Parliament
  - Civil service
  - Local authorities

- **Finance**
  - Shareholders
  - Stockbrokers
  - Fund managers
  - Banks

- **Employees**
  - Staff
  - Trades unions representatives

- **Commercial**
  - Customers
  - Distribution
  - Suppliers
Public Relations and Publicity

No matter which means is used to carry the information, publicity has three important characteristics:

1. The message has high credibility
2. No direct media costs
3. No control over publication
Sponsorship
What is sponsorship?

- Sponsorship is a mutually advantageous business relationship between parties in which the sponsor provides benefits for the sponsored in exchange for a result that can be measured against pre-defined objectives.
Sponsorship

The Emirates Stadium
£150 Million over 5 years
Etihad Stadium
£400 Million over 10 years
Different rights holders structure their sponsorships differently

FIFA World Cup 2010 Sponsorship types

- **GLOBAL PARTNERS**
  - $350m
  - Coca-Cola, Emirates, adidas, Visa, Sony, Hyundai, Kia

- **WORLD CUP PARTNERS**
  - $65m
  - Castrol, Continental, Budweiser, Satyam, SEARA, Yiling Solar, MTN, McDonald's

- **NATIONAL SUPPORTERS**
  - $20m
  - FNB, Telkom, Aggreko, prasa
Different types of sponsorship

- Sports sponsorship
- Broadcast sponsorship
- Arts and culture
- Venue sponsorship
- Education
- Community
- Event/entertainment
Sponsorship

The five principal objectives:

1. Gain publicity
2. Create entertainment opportunities
3. Foster favorable brand and company associations
4. Improve community relations
5. Create promotional opportunities
Why?

- Brand awareness
- Moving the target market towards positive behaviour
- Stakeholder interaction
Moving the target market towards positive behaviour

- Achieving desired brand and image effects
- Impact includes:
  - Increase in awareness
  - Positive perception of brand
  - Positive behaviour (usage, trial, loyalty, reinforcement)
- Measures:
  - Brand recall
  - Brand perception
  - Intention to purchase
  - Sales
  - Lead generation
Improve relationships with key stakeholders

- Community/client perceptions, HR objectives, client entertainment through hospitality

- Impact includes:
  - Increase in awareness
  - Positive perception of brand
  - Positive behaviour (usage, trial, loyalty, reinforcement)

- Measures:
  - Employee satisfaction levels
  - Feedback from hospitality guests
  - Community impact
Advantages of sponsorship

- Can be a cost-effective way of reaching niche markets
- All sectors of society can be targeted and reached through sponsorship
- Offers creative opportunities
- Lends itself to integrated communications
Disadvantages of sponsorship

- Can be misunderstood by employees
- Sponsorship of one sports club such as a football club can alienate the brand from opposition fans
- Uncontrollable variables
- Ambush marketing can frustrate sponsors
New development in Sponsorship

- Ambush marketing – activities of companies that try to associate themselves with an event without paying any fee to the event owner
Ambush marketing
Ambush marketing
Ambient advertising/guerilla marketing

The delivery of advertising messages through unexpected means and in ways that surprise the consumer to gain attention.
Ambient Advertising

- Refers to advertising carried on outdoor media that does not fall into the established outdoor categories such as billboards and bus signs. Examples include:
  - Shopping bags
  - Petrol pump nozzles
  - Balloons
  - Banners towed by airplanes
  - Street pavements
  - Overhead lockers in airplanes
Ambient advertising
Ambient advertising
Ambient advertising