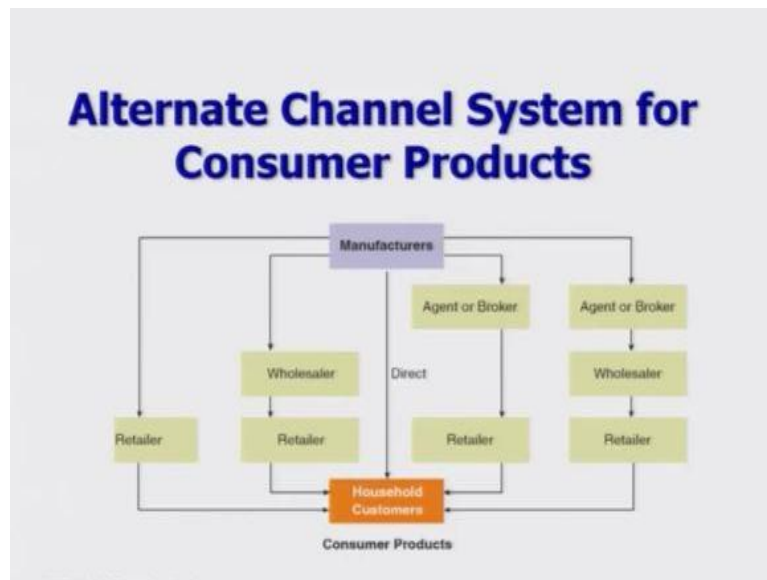


Marketing Management - II
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Lecture No. W6-L2
Types of Channel and Their Dynamics

Hello welcome to our second session of week 6 of our discussion on channels and distribution in our course on marketing management advanced concepts. So mm2 week 6 sessions 2. We discussed in the last session about these different types of channel structures for consumer products or industrial products.

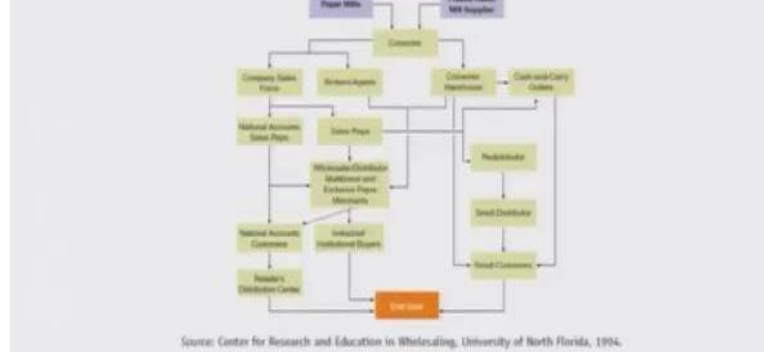
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In both of these we looked at somewhat simplistic channel structures. The simplistic channel structures do operate exactly as shown for products which are sort of staple products or regularly used industrial products low or medium value products.

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Channel System for a Manufacturer of Food Service Disposables



But sometimes the structure can be a little bit more complicated. Like this is actually a sort of chain for food service disposables so like say paper cups or plastic cups or plates and so on. So here you see we have paper mills suppliers, plastic resin suppliers, they supply to what we call converters that means people who convert these input elements into those cups or plates and so on. What we normally use for parties or for casual eating occasions picnics and so on.

Now if you see here we have kind of looked at the entire chain between this converter or manufacturer and the end user in a in its entirety. So, you see study this in detail you will see that from the manufacturer or converter. Here we have company sales forces who actually go to national accounts and their national account customers and then that is one kind of channel. So, this is the same product in a more btwob or institutional sales mode.

So, this will apply to say disposables crockery or plates and cups etc., a sold to large customers like railways. And then of course there can be on the other side of it can be for casual purchasers like you and me. For a birthday party or for a picnic. And where we will normally be served by a small distributor, local distributor who may be getting his supply from some kind of wholesaler or large outlet nearby.

So, as you can see here that when we look at it in detail usually have a multi tier complex and interrelated chain structure.

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Channel Dynamics

- Channel structures must adapt to changes in the environment.
- Structural changes can impact the entire industry.

So, the channel structure therefore is not 1 size that fits all it depends on the type of product, it depends on the spread of the market or the type of the market the value of the products sold and so on. And structural changes are necessary as time progresses as the business volume increases or as the market spread expands for a particular supplier and these days. Due to different types of information and communication technology based channels.

Due to appearance of what we call M-commerce or mobile phone based commerce or e-commerce or electronic or telli commerce telephone based buying and selling or internet based buying and selling. This channel structures are very rapidly evolving, so there was a time when people went to a store browsed through different types of products tried it on in case of apples or shoes and then made the final purchase decision.

Nowadays people even often select a particular type of say running shoes they make a choice for a particular brand. They choose color everything often on the web and because the depictions of products on the webs have now become far more powerful and realistic and therefore from that decision-making process which earlier used to happen in the store and that is why stores are to have to you known attractive display mechanisms and all kinds of stuff.

Now a lot of that happens on in the virtual world. But the physical purchased the customer may still go to a store and make the final decision between two alternatives by looking at buy that in the physical store through touch and feel so what is happening is that more and more channels are getting mixed up and even structures large stores are now giving way to more distributed small stores which are more like showrooms.

So, the showrooms only show you the product that you would like to compare it with another product and then based on your order the item will be delivered to you. It may be delivered right at that point or it may be delivered with a little delay from another warehouse. And there were maybe three intermediaries who are involved. There is a web based intermediation where the customer is a gathering information making choices.

And then there is somebody who is actually providing some physical comparative platform and there is another intermediary who is actually fulfilling finally a delivery of the order. And the payment system itself also now because of this electronic mediation payment partners are another kind of channel partners.

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As you can see therefore the channel partners perform different types of functions today. Starting from market research or promotional communication to the physical contact with the customer to doing some little bit of customization, size alteration of a trouser or a fitment of a lady's dress, to sometimes negotiation. Physical warehousing to physical distribution financing sometimes the distributors provide finance for a high value product so car dealers for example often also provide the financing.

So, they provide you in a way the loan so upfront you may be paying only 20% value or 25% value of the car and balance 75% you will be paying in equated monthly installments what we call EMI. And this whole financing arrangement is done by the distributor in conjunction with some bank or some other financial intermediary. So that is another kind of channel partner and that we see more and more in many different types of products.

Today on the web you can even get financing for something like a mobile phone a smart phone so for purchases above 10000 rupees today installment financing is often used by customers. And that happens because of this new evolution in the distribution chain mechanism. So in a way therefore across the chain different levels of risks are taken by different channel partners.

Different types of service commitments are delivered by different channel partners. And overall therefore the relationship between the so you can see the relationship between the end user and the customer is often multi layered and therefore is a is a complex affair. So customer relationship management is today a very involved subject because the relationship is not managed by on one to one basis always. But it is often one to many to one sort of that means there is one manufacturer and one customer between them there are multiple manys. Many channel partners who are managing the relation.

So if you are the manufacturer or you are the owner of the brand or it is your product or service for which you are looking at market share objectives, you have to understand that unless you are able to manage your partner relationships very well you will not be able to manage your relationship with the end customer well. So, you are because you are not doing it alone you are doing with them.

What we call the ecosystem so managing the distribution network is like managing an ecosystem and therefore there are multiple shared responsibilities delivering ultimately a satisfactory relationship to the end customer. And that is why this kind of channel function analysis has become very important today. And this analysis is not to done by few people it is important to understand.

That the different responsibilities for different channel entities with respect to all these tasks must be mapped must be understood by all partners and must be agreed upon by all partners to make this system work.

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Channel Function Analysis

	Channel			Internal	
	Representative	Wholesaler	Retailer	Sales Force	Direct: Phone, Mail, Internet
Marketing research					
Communications					
Contact					
Matching/customizing					
Negotiation					
Physical distribution					
Financing					
Risk taking					
Service					
Relationship management					
Product assembly					
Overall attractiveness					

So you see marketing research marketing research they were different like for example the channel representatives who are the retailers or the sales force who are in direct contact or even the tele sales agents who are in direct contact with the customer. They have a very important role to play in marketing research they provide day to day hour by hour inputs. So if you have a good information system you can capture all the transactions.

For each individual sale that is happening at the retailer end or tele sales agent and you can easily develop models to understand how your products are performing with relation to the competition or with relation to your marketing objectives marketing communication is not the only responsibility of the marketing communication department. But today that communication responsibility must be shared by the entire channel structure.

And who is supposed to do what who is supposed to produce the brochures or who is supposed to produce a provide a good exhaustive set of information on the web versus who is supposed to explain that to the customer. When the customer has some question all that must be clearly understood so these functions versus these partners and each partner what is their responsibility with respect to risk taking or physical distribution or product assembly must be clearly understood by all partners and agreed upon.

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Customer Wants and Needs Driving the Maruti Distribution System

Shopping wants and needs	
High-quality information	
Comprehensive, including competitors	
Accurate, credible, objective	
Current	
Easy to understand and compare	
Comfortable, convenient access to information	
Low pressure, nonthreatening	
Evaluation assistance	
Buying wants and needs	
Fair price	
Fair negotiation process	
Free of pressure	
Easy to understand, all costs clear	
Free of deception, dishonesty	
	Convenience
	Honest, courteous treatment
	Inventory availability
	Service wants and needs
	Quality of work
	Do right the first time
	Use high-quality parts
	Guarantee quality of work
	Courteousness
	Timeliness
	Honest, courteous treatment
	Diagnose and recommend needed repairs accurately and honestly
	Fair price

Then only this complex structure will work properly and there will be a synergy rather than confusion in this complex setup so for example, I am taking up this Maruti's distribution system all these years you have seen that Maruti distribution for the cars happened through their authorized distributors some of those authorized distributors provided service most of them actually provided service after sales service or repair or other reconditioning services and they also provided there were the outlets for financing.

So if you if we look at the earlier one so Maruti distributors provided inputs for marketing research they were the frontline communicators for each car and its distinctive value propositions they were often doing the matching or customizing by providing a different type of upholsteries or accessories so whether you will have what kind of music system you will have those customizing or what kind of leather upholstery or synthetic upholstery or cotton upholstery what will have they did that customization.

They had some negotiation margin so they often give a little bit more discount or more discount or less discount and they look care of the physical distribution they were the front for financing they provided this financing in conjunction with other financing partner's banks or other institutions. But to the customer they were the people who brought it the financing for stimulating the purchase and distributor shared the risk and the service relationship management.

And all that but when Maruti went into more higher valued cars like what they are now marketing like Baleno or the crossover or whatever it is called or some of these high end

SUVs and some new products which they are possibly planning to introduce high value of products limited number of customers but much higher in value they felt the need of a different kind of distribution.

And that is why they have created this what they call Nixa or whatever and where you get a much higher end of customer support higher level of service maybe in such a case they will pick up the car for servicing from your residence rather than you bringing the car and so on. So they can create a whole value basket matching the type of the product range.

So, they are Maruthi now has a two distinctive distribution channels one more managed directly by them and another managed mostly by their distributors or third party entities and this kind of mix is today possible and often happening in the past for example ibm then ever had a direct distribution for a long time and then they operated through value added resellers another kind of where as they are called another kind of distributors that means the distributors not only provided the physical product but they did lot of these matching customizing negotiation and so on.

Financing and now but IBM in for their services however they are now operating and direct not through intermediaries but they may have sometimes other consultants in between another kind of intermediary. but on the other hand if you see the history of dell computer they dell directly through telephone telesales and later on mostly through the web sales directly with the customer.

So the customer performed many of the roles traditionally performed by ibm work for sales force or the ibm distributor and so dell eliminated all the intermediary channels and dell directly with a customer and it was successful very successful for them. But the same approach can completely backfire for another company with another kind of culture with another kind of product range.

So again I would emphasize that there is no one size or one type of distribution structure that will fit all companies you will have to carefully study your market your target market your target market segment and what kind of positioning you are making for your goods or services and then you will have to decide and decide depending the on transaction level and reduction intensity and complexity you will have to decide your distribution channel.

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So, to summarize factors that affect the channel structure determination can be customer behavior can be competitive competitors or competitive forces marketing strategy of your organization resources available to you and changes in technology.

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So therefore, we will have direct channels indirect channels there are strength and weakness for each case and there are advantages and disadvantages and they will need to be combined for different products.

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Factors Affecting the Channel System

- Customer behavior
- Competitors
- Marketing strategy
- Resources
- Changes in technology

In terms of these factors that affect the channel system we will take up some instances and will discuss more details on this in our next session. Thank you!