Chapter 17
Designing and Managing Value Networks and Marketing Channels
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Establish channels for different target markets and aim for efficiency, control, and adaptability.
Chapter Objectives

- In this chapter, we focus on the following channel questions from the viewpoint of the manufacturers:
  - What is the value network and marketing channel system?
  - What work is performed by marketing channels?
  - What decisions do companies face in designing, managing, evaluating, and modifying their channels?
  - What trends are taking place in channel dynamics?
  - How can channel conflict be managed?
What is a Value Network and Marketing-Channel System?

- Value Network
- Marketing channel
Oracle's home page

Customer Success: Burlington to lower employee costs by 25%
Adding human resources and procurement multiplies benefits of Oracle Financials.
- Retail industry leaders increase revenue, lower cost with Oracle
- POSCO reduces budgeting time by 80 days, undergoes radical transformation with Oracle E-Bus.
- Hudson's Bay Co. set to save millions. E-Business Suite supplies retooling for 100% ROI in two.

Database: 25 years of trust
Security-minded from day one--and the evaluations prove it.
- Oracle9i Database sets new TPC-H record for affordability and performance.
- Independent study finds DB2s work 66% faster with Oracle9i.
- Secure your data with the Unbreakable Oracle9i Database.

Application Server: JDeveloper, "Java Coding Done Right"
Oracle9i JDeveloper is responsive, complete, integrated.
- Oracle #1, IBM #2, BEA #6 in application server market. Read the Hurwitz report.
- Oracle beats IBM in Java development. You can build J2EE applications faster with Oracle9i JDev.

E-Business Suite: Sign on for simplicity
Oracle announces flexible pricing for entire E-Business Suite.
- Make fact-based decisions with Daily Business Close--Current information to drive business change.
What is a Value Network and Marketing-Channel System?

- “Go-to-market” or hybrid channels
  - IBM’s sales force sells to large accounts, outbound telemarketing sells to medium-sized accounts, direct mail sells to small accounts, retailers sell to still smaller accounts, and the Internet to sell specialty items
  - Charles Schwab enables its customers to do transactions in branch offices, over the phone, or via the Internet
  - Staples markets through traditional retail, direct-response Internet site, virtual malls, and 30,000 linked affiliated sites
What is a Value Network and Marketing-Channel System?

- **Channel integration characteristics:**
  - Ability to order a product online, and pick it up at a convenient retail location
  - Ability to return an online-ordered product to a nearby store
  - Right to receive discounts based on total of online and off-line purchases
What Work is Performed by Marketing Channels?

- Many producers lack the financial resources to carry out direct marketing
- In some cases direct marketing simply is not feasible
- Producers who do establish their own channels can often earn a greater return by increasing their investment in their main business.
Figure 17.1: How a Distributor Effects an Economy of Effort

(a) Number of contacts
\[ M \times C = 3 \times 3 = 9 \]

(b) Number of contacts
\[ M + C = 3 + 3 = 6 \]

M = Manufacturer
C = Customer
D = Distributor
As more retailers develop a web presence, they often move from a “brick-and-mortar” to a “click-and-mortar” business model where customers expect channel integration. Can you identify any potential problems for these companies? Can you identify any unique marketing opportunities that such a change would offer these companies?
What Work is Performed by Marketing Channels?

- Channel Functions and Flows
  - Key functions include:
    - Gather information about potential and current customers, competitors, and others
    - Develop and disseminate persuasive communications to stimulate purchasing
    - Reach agreements on price and other terms so that transfer of ownership or possession can be effected
    - Place orders with manufacturers
What Work is Performed by Marketing Channels?

- Acquire funds to finance inventories at different levels in the marketing channel
- Assume risk connected with carrying out channel work
- Provide for the successive storage and movement of physical products
- Provide for buyers’ payment of their bills through banks and other financial institutions
- Oversee actual transfer of ownership from one organization or person to another
Figure 17.2: Five Marketing Flows in the Marketing Channel for Forklift Trucks

1. Physical Flow
   - Suppliers
   - Transporters, warehouses
   - Manufacturer
   - Transporters, warehouses
   - Dealers
   - Transporters
   - Customers

2. Title Flow
   - Suppliers
   - Manufacturer
   - Dealers
   - Customers

3. Payment Flow
   - Suppliers
   - Banks
   - Manufacturer
   - Banks
   - Dealers
   - Banks
   - Customers

4. Information Flow
   - Suppliers
   - Transporters, warehouses, banks
   - Manufacturer
   - Transporters, warehouses, banks
   - Dealers
   - Transporters, banks
   - Customers

5. Promotion Flow
   - Suppliers
   - Advertising agency
   - Manufacturer
   - Advertising agency
   - Dealers
   - Customers
What Work is Performed by Marketing Channels?

- Forward flow
- Backward flow
Figure 17.3: Consumer and Industrial Marketing Channels

(a) Consumer marketing channels

0-level: Manufacturer
1-level: Manufacturer
2-level: Manufacturer
3-level: Manufacturer

- Manufacturer
- Wholesaler
- Jobber
- Retailer
- Consumer

(b) Industrial marketing channels

0-level: Manufacturer
1-level: Manufacturer
2-level: Manufacturer
3-level: Manufacturer

- Manufacturer
- Manufacturer's representative
- Manufacturer's sales branch
- Industrial distributors
- Industrial customer
- Industrial customer
- Industrial customer
- Industrial customer
What Work is Performed by Marketing Channels?

- Channel levels
  - Zero-level channel (a.k.a. direct-marketing channel)
  - One-level channel
  - Two-level channel
  - Three-level channel
  - Reverse-flow channel
- Service Sector Channels
- Information Highway Channels
The advent of print media, the telephone, radio, television, and the Internet have all provided new ways for marketers to get their message to their intended audience. As various technologies advance, these information channels offer more precise delivery of a message. Can you identify an emerging information distribution channel?
The People’s Bank Internet site

Do Your Taxes Online
QuickTax® for the Web™ is back - presented by People’s Bank

3.75% Home Equity Special - the lowest rate in years!
Click Here for Details
Channel-Design Decisions

- Push strategy
- Pull strategy

- Designing a channel system involves four steps:
  - Analyzing customer needs
  - Establishing channel objectives
  - Identifying major channel alternatives
  - Evaluating major channel alternatives
Channel-Design Decisions

- Analyze Customers’ Desired Service Output Levels
  - Lot size
  - Waiting time
  - Spatial convenience
  - Product variety
  - Service backup
Channel-Design Decisions

- Establish Objectives and Constraints
- Identify Major Channel Alternatives
  - Types of Intermediaries
  - Number of Intermediaries
    - Exclusive distribution
      - Exclusive dealing
    - Selective distribution
    - Intensive distribution
Channel-Design Decisions

- Terms and Responsibilities of Channel Members
  - Price policy
  - Conditions of sale
  - Distributors’ territorial rights

- Evaluate the Major Alternatives
  - Economic Criteria
Figure 17.4: The Value-Adds versus Costs of Different Channels

- **Sales force**: High Value, High Cost
- **Value-added partners**: Medium Value, High Cost
- **Distributors**: Low Value, Medium Cost
- **Retail stores**: Medium Value, Low Cost
- **Telemarketing**: High Value, Low Cost
- **Internet**: Lowest Value, Lowest Cost

The graph shows a continuum from low to high value and cost, with different channels positioned accordingly. Direct sales channels are at the lower end of the value spectrum, while the sales force is at the higher end.
Channel-Design Decisions

- Channel advantage
- Control and Adaptive Criteria

Figure 17.5: Break-even Cost Chart
Channel-Management Decisions

- Selecting Channel Members
- Training Channel Members
- Motivating Channel Members
  - Producers can use:
    - Coercive power
    - Reward power
    - Legitimate power
    - Expert power
    - Referent power
Channel-Management Decisions

- Distribution programming
  - Distributor-relations planning
- Evaluating Channel Members
- Modifying Channel Arrangements
Figure 17.6: Channel Value Added and Market Growth Rate

Value Added by the Channel

<table>
<thead>
<tr>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Introductory</td>
<td></td>
</tr>
<tr>
<td>- PC’s: hobbyist stores</td>
<td></td>
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<tr>
<td>- Designer apparel: boutiques</td>
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<tr>
<td>2. Growing</td>
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<tr>
<td>- PC’s: specialty retailers</td>
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<td>- Designer apparel: better department stores</td>
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<tr>
<td>3. Mature</td>
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<tr>
<td>- PC’s: mass merchandisers</td>
<td></td>
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<tr>
<td>- Designer apparel: mass merchandisers</td>
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<tr>
<td>4. Declining</td>
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<tr>
<td>- PC’s: mail order</td>
<td></td>
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<td>- Designer apparel: off-price stores</td>
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</tbody>
</table>
Channel Dynamics

- Vertical Marketing Systems
  - Conventional marketing channel
  - Vertical marketing systems (VMS)
- Corporate and Administered VMS
  - Corporate VMS
  - Administered VMS
Channel Dynamics

- Contractual VMS
  - Wholesaler-sponsored voluntary chains
  - Retailer cooperatives
  - Franchise organizations
- Manufacturer-sponsored retailer franchise
- Manufacturer-sponsored wholesaler franchise
- Service-firm-sponsored retailer franchise
Channel Dynamics

- The New Competition in Retailing
- Horizontal Marketing Systems
- Multichannel Marketing Systems
Stihl’s product lines

Experience the STIHL anniversary animation [here](#) (Flash, 452kB)

Click here for further information on the product range of STIHL USA
Channel Dynamics

- Planning Channel Architecture
Figure 17.7: The Hybrid Grid

<table>
<thead>
<tr>
<th>Marketing Channels and Methods</th>
<th>Demand-Generation Tasks</th>
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</thead>
<tbody>
<tr>
<td>VENDOR</td>
<td>Lead Generation</td>
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<td>Internet</td>
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<td>National Account Management</td>
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<td>Direct Sales</td>
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<td>Telemarketing</td>
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<td>Direct Mail</td>
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<td>Retail Stores</td>
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<td>Distributors</td>
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<td>Dealers and Value-Added Resellers</td>
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<tr>
<td>Advertising</td>
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</tbody>
</table>
Channel Dynamics

- Roles of Individual Firms
  - Insiders
  - Strivers
  - Complementers
  - Transients
  - Outside innovators
Channel Dynamics

- Conflict, Cooperation, and Competition
  - Types of Conflict and Competition
    - Vertical channel conflict
    - Horizontal channel conflict
    - Multichannel conflict
  - Causes of Channel Conflict
    - Goal incompatibility
    - Unclear roles and rights
      - Differences in perception
Channel Dynamics

- By adding new channels, a company faces the possibility of channel conflict which may include:
  - Conflict between the national account managers and field sales force
  - Conflict between the field sales force and the telemarketers
  - Conflict between the field sales force and the dealers
Channel Dynamics

- Managing Channel Conflict
  - Diplomacy
  - Mediation
  - Arbitration

- Legal and Ethical Issues in Channel Distribution
  - Exclusive distribution
  - Exclusive dealing
  - Tying agreements