Chapter 5

STRATEGY IN MARKETING CHANNELS

Chapter Objectives

Channel strategy refers to the broad principles by which the firm expects to achieve its distribution objectives for its target markets. It focuses on the "place" variable in the four Ps of marketing. Channel strategy is relevant to all six of the basic distribution decisions faced by firms: 1) the role of distribution in the firm's overall objectives and strategies, 2) the role of distribution in the marketing mix, 3) the design of marketing channels, 4) the selection of channel members, 5) management of the channel, and 6) evaluation of channel member performances.

In terms of the design of marketing channels, channel strategy should guide the design process in an attempt to gain a differential advantage for the firm using superior channel design.

Managing the marketing channel calls for the channel manager to answer three strategic questions: How close a relationship should be developed with channel members? How should channel members be motivated? How should the marketing mix be used to enhance channel member cooperation?

Learning objectives

- 1) Understand the meaning of channel strategy.
- 2) Be able to describe the six basic distribution decisions that firms face.
- 3) Have an awareness of the potential for channel strategy to play a major role in the overall corporate objectives.
- 4) Recognize the relationship of distribution to the other variables in the marketing mix and the role of channel strategy.
- 5) Be alerted to the conditions that tend to favor an emphasis on distribution strategy in developing the marketing mix.
- 6) Appreciate the role of channel strategy in creating a differential advantage through channel design.
- 7) Have a familiarity with the implications of the selection decision for channel strategy.
- 8) Know the key strategic decisions faced by the channel manager in the management of the marketing channel.
- 9) Understand the portfolio concept as it applies to motivating channel members.
- 10) Be aware of the main channel strategy issues involved in the evaluation of channel members.

Chapter Topics

- 1) Channel Strategy Defined
- 2) Marketing Channel Strategy and the Role of Distribution in Corporate Objectives and Strategy
- 3) Marketing Channel Strategy and the Marketing Mix
- 4) Channel Strategy and Designing Marketing Channels
- 5) Channel Strategy and the Selection of Channel Members
- 6) Channel Strategy and Managing the Marketing Channel
- 7) Channel Strategy and the Evaluation of Channel Member Performance

Chapter Outline

Channel Strategy Defined

Key Term and Definition

 Marketing channel strategy: The broad principles by which the firm expects to achieve its distribution objectives for its target markets.

This definition focuses on the principles or guidelines for achieving the firm's distribution objectives rather than on its general marketing objectives. Thus marketing channel strategy is concerned with the *place* aspect of marketing strategy.

To achieve its objectives a firm will have to address six basic distribution decisions:

- 1. What role should distribution play in the firm's overall objectives and strategies?
- 2. What role should distribution play in the marketing mix?
- 3. How should the firm's marketing channels be designed to achieve its distribution objectives?
- 4. What kinds of channel members should be selected to meet the firm's distribution objectives?
- 5. How can the marketing channel be managed to implement the firm's channel design effectively and efficiently on a continuing basis?
- 6. How can channel member performance be evaluated?

A sound approach to dealing with distribution decisions is to formulate marketing channel strategy to provide the guiding principles for dealing with distribution decisions on a *proactive* rather than a *reactive* basis.

Marketing Channel Strategy and the Role of Distribution in Corporate Objectives and Strategy

The most fundamental distribution decision for any firm or organization to consider is the role that distribution is expected to play in a company's long-term overall objectives and strategies. The role of distribution should be considered by the highest management levels of the organization.

When this three-cycle planning process is undertaken in a large and diversified firm, all three levels (corporate, business, and program and functional departments) will become involved in the strategic planning process.

A) Determining the Priority Given to Distribution

The question of how much priority to place on distribution is one that can be answered only by the particular firm involved. While there are no general guidelines and no body of empirical research to indicate when distribution should be viewed as a critical factor in a firm's long-term strategic objectives, there is however, a growing belief among top management experts that distribution *does* warrant the attention of top management, because competition has made the issue too important to ignore.

What is fair to say, however, is that to *automatically* dismiss distribution as a decision area for top management concern in formulating corporate objectives and strategies limits the firm's ability to compete effectively in today's global markets.

Marketing Channel Strategy and the Marketing Mix

The role of distribution must be considered in the marketing mix along with price, promotion, and product. How much emphasis to be placed on *place* has no general answer. Each firm or marketing manager must make that determination for his or her self.

What we do know is that a general case of stressing distribution strategy can be made if any one of certain conditions prevails:

- 1) Distribution is the most relevant variable for satisfying target market demands.
- 2) Parity exists among competitors in the other three variables of the marketing mix.
- 3) A high degree of vulnerability exists because of competitors' neglect of distribution.
- 4) Distribution can enhance the firm by creating synergy from marketing channels.

1) Distribution Relevance to Target Market Demand

As firms have become more orientated to target markets over the past two decades by listening more closely to their customers, the relevance of distribution has become apparent to an increasing number of companies because it plays such a key role in providing customer service.

Why are marketing channels so closely linked to customer need satisfaction? Because it is through distribution that the firm can provide the kinds of levels of service that make for satisfied customers.

2) Competitive Parity in Other Marketing Mix Variables

It is increasingly more difficult for a company to differentiate its marketing mix from that of the competition. Price, product, and promotional strategies can easily and quickly be copied.

Distribution (place), the fourth variable of the marketing mix, can offer a more favorable basis for developing a competitive edge because the advantages achieved in distribution are not as easily copied by competitors as the other three. Why is this the case? Distribution advantages, if manifest in a superior marketing channel (rather than just the logistical aspects of distribution), are based on a combination of superior strategy, organization, and human capabilities. This is a combination not easily or quickly imitated by competitors.

3) Distribution Neglect and Competitive Vulnerability

Neglect of distribution strategy by competitors provides an excellent opportunity for those companies who *are* willing to make the effort to develop distribution as a key strategic variable in the marketing mix.

But to pursue this approach, the channel manager has to make a conscious effort to analyze target markets to determine if distribution has been neglected by competitors and whether vulnerabilities exist that can be exploited.

4) Distribution and Synergy for the Channel

By "hooking up" with the right kind of channel members, the marketing mix can be substantially strengthened to a degree not easily duplicated with other variables.

The most obvious example of this is when a channel member's reputation or prestige is *stronger* than the manufacturer's. By securing distribution of its products through such channel members at the wholesale or retail levels, the manufacturer immediately upgrades its own credibility. In effect, the manufacturer's products handled by the famous retailers or well-established wholesalers become "anointed" as superior products to a degree beyond what the manufacturer could have accomplished on its own.

Synergy through distribution goes well beyond the enhancement of the manufacturer's image. Strong and close working relationships between the manufacturer and channel members – which in recent years have been referred to increasingly as *distribution* partnerships, partnering, strategic alliances or networks – can provide a substantial strategic advantage.

Channel Strategy and Designing Marketing Channels

Channel strategy should guide channel design to help the firm attain a *differential* advantage.

1) Differential Advantage and Channel Design Key Term and Definition

Differential advantage: Also called sustainable competitive advantage, this refers to a firm's attainment of an advantageous position in the market relative to competitors – a place that enables it to use its particular strengths to satisfy customer demands better than its competitors on a long-term (sustainable) basis.

The entire range of resources available to the firm and all of its major functional activities can contribute to the attempt to create a differential advantage.

Channel design, though just one component of this attempt to gain a differential advantage should nevertheless be viewed as a very important part.

A differential advantage based on the design of a superior marketing channel can yield a formidable and long-term advantage because it cannot be copied easily by competitors.

2) Positioning the Channel to Gain Differential Advantage Key Terms and Definitions

• Channel position: "The reputation a manufacturer acquires among distributors (channel members) for furnishing products, services, financial returns, programs, and systems that are in some way superior to those offered by competing manufacturers."

Channel positioning: "What the firm does with its channel planning and decision making to attain the channel position."

The key is to view the relationship with channel members as a *partnership* or *strategic alliance* that offers recognizable benefits to the manufacturer and channel members on a long-term basis.

By thinking in terms of channel positioning, the channel manager takes a longer-term strategic view of channel design and is more likely to ask the question: How can I design the channel so that channel members will view my firm as having done a better job than the competitive manufacturers they represent?

Channel Strategy and the Selection of Channel Members

The approach taken to channel member selection and the particular types of intermediaries chosen to become channel members should reflect the channel strategies the firm has developed to achieve its distribution objectives.

Moreover, the selection of channel members should be consistent with the firm's broader marketing objectives and strategies and may also need to reflect the objectives and strategies of the organization as a whole.

This follows because channel members, thought independent businesses, are *from the customer's perspective* an extension of the manufacturer's own organization.

A firm such as Rolex can be selective in choosing its channel members. On the other hand, if a manufacturer's products are "middle of the road" in quality and aimed at the mass market, its distribution strategy should stress broad coverage of the market.

Channel Strategy and Managing the Marketing Channel

Channel management from the manufacturer's perspective involves all of the plans and actions taken by the manufacturer aimed at securing the cooperation of the channel members in achieving the manufacturer's distribution objectives.

The channel manager attempting to plan and implement a program to gain the cooperation of channel members is faced with three strategic questions:

- 1) How close a relationship should be developed with the channel members?
- 2) How should the channel members be motivated to cooperate in achieving the manufacturer's distribution objectives?
- 3) How should the marketing mix be used to enhance channel member cooperation?

1) Closeness of Channel Relationships

How close a channel relationship any given manufacturer should develop with its channel members is really a question of strategy.

If a channel member believes that a close working relationship will help him or her do a better job of managing the channel and achieve the distribution objectives, then closeness should be emphasized.

On the other hand, if the channel manager believes that closeness is not necessary for effective management of the channel, then it is probably a waste of time and money to do so.

As a rough strategic guide for dealing with the closeness question, the channel manager can relate it to the degree of *distribution intensity* needed for the manufacturer's products.

Distribution intensity is not, of course, the only factor to consider in deciding how close a relationship the manufacturer should develop with the channel members. Many other

factors, such as markets being targeted, products, company policies, middlemen, environment, and behavioral dimensions can play a role.

2) Motivation of Channel Members

When motivating channel members, whether at the wholesale or retail levels, the strategic challenge is to find the means to secure strong channel member cooperation in achieving distribution objectives. Channel strategy in this context involves whatever ideas and plans the channel manager can devise to achieve that result.

From the diverse array of channel tactics shown, the channel manager must decide which to use to effectively motivate the channel members.

The distribution portfolio analysis (DPA) has been borrowed from finance and applied in the context of marketing channels. While DPA provides a comprehensive method for categorizing channel members, the essence of DPA is that it can help the channel manager focus more insightfully on the channel members by viewing all of the channel structures and/or channel members as the portfolio.

The essential idea behind the portfolio approach to channel member motivation is that different types and sizes of channel members participating in various channel structures may respond differently to various motivational strategies.

Although the channel portfolio concept provides a useful framework for determining which motivational approaches might be useful for various classes of channel members, the channel manager should not lose sight of the final customer which, after all, is the real reason for developing an appropriate mix of channels and strategies in the first place!

3) Use of the Marketing Mix in Channel Management

Optimizing the marketing mix to meet the demands of the target market requires not only excellent strategy in each of the four strategic variables of the marketing mix, but also an understanding of the relationships or interfaces among them.

From the standpoint of distribution and particularly of managing the marketing channel, the channel manager should keep the strategic concept of developing synergy clearly in mind.

Channel Strategy and the Evaluation of Channel Member Performance

At this point in the text, we are concerned only with the underlying strategic significance of channel member performance evaluation, which in practice is concerned with one overriding question: *Have provisions been made in the design and management of the channel to assure that channel member performance will be evaluated effectively?*

This question will direct the channel manager's attention toward viewing performance evaluation as an integral part of the development and management of the marketing channel rather than as an afterthought.