

Chapter 9

Business Marketing Channels & Market Logistics



DINH Tien Minh (Ph.D.)

Objectives



- 01 Know distinctive nature of business Marketing channels.
- 02 Learn participants in business Marketing channels.
- 03 Understand the channel design process and administering the channel members.
- 04 Learn the role of supply chain management, logistics and market logistics.



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Content

- 01 Distinctive Nature of BM Channels
- 02 Participants in BM Channels
- 03 Channel Design Process
- 04 Administering Channel Members
- 05 Supply chain and Logistics Management
- 06 Market Logistics/ Physical Distribution



1. Distinctive Nature of BM Channels

01

❖ Definition of Marketing channels:

Also called distribution channels. A set of interdependent of organizations that make product or service available to customer for use.

Webster F.E., Jr., Industrial Marketing Strategy, John Wiley & Sons, 2nd edition, p.213.



1. Distinctive Nature of BM Channels

❖ Definition of Marketing channels :

Consist of delivering the completed products to customers and intermediaries. To assist in performing the tasks of storing and moving their goods and services, the firms have to engage the services of warehouses and transportation companies.

Webster F.E., Jr., Industrial Marketing Strategy, John Wiley & Sons, 2nd edition, p.213.

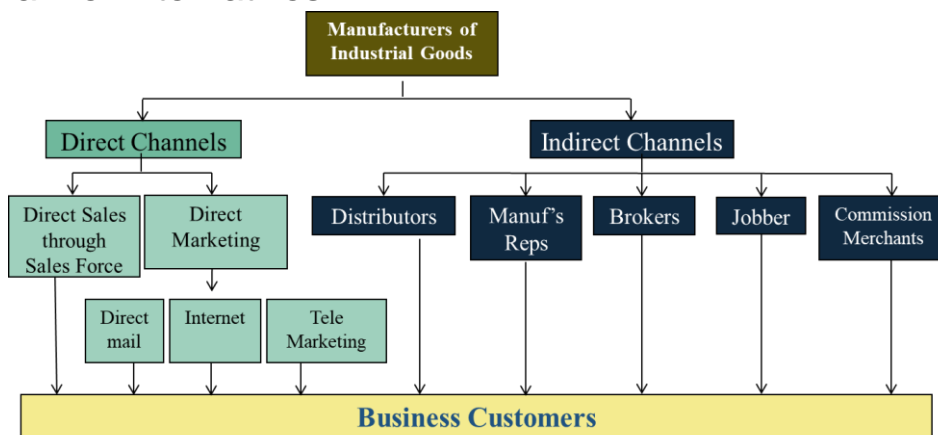


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1. Distinctive Nature of BM Channels

❖ Channel Alternatives in BM:



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David Perry, "How you'll manage your 1990s distribution portfolio",
Business Marketing, 74 (June, 1989), p54.



1. Distinctive Nature of BM Channels

❖ Channel Alternatives in BM:

- In direct channel structure, the manufacturer perform all the functions as contacting customers, negotiating, communicating, selling, financing, product storage, transportation and servicing.



1. Distinctive Nature of BM Channels

❖ Channel Alternatives in BM:

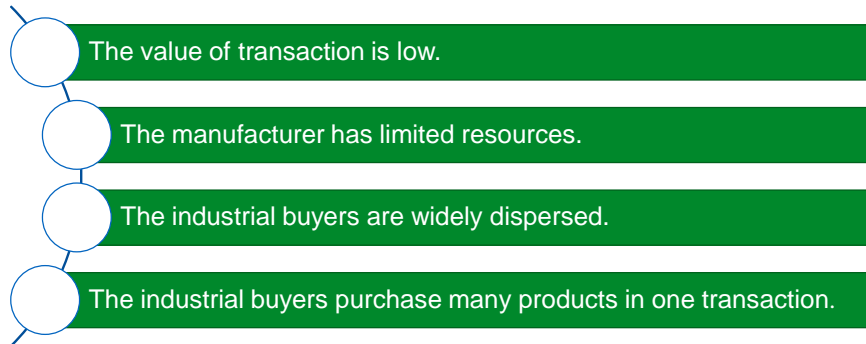
- When the direct distribution approach is viable?



1. Distinctive Nature of BM Channels

❖ Channel Alternatives in BM:

- When the indirect distribution approach is viable?



1. Distinctive Nature of BM Channels

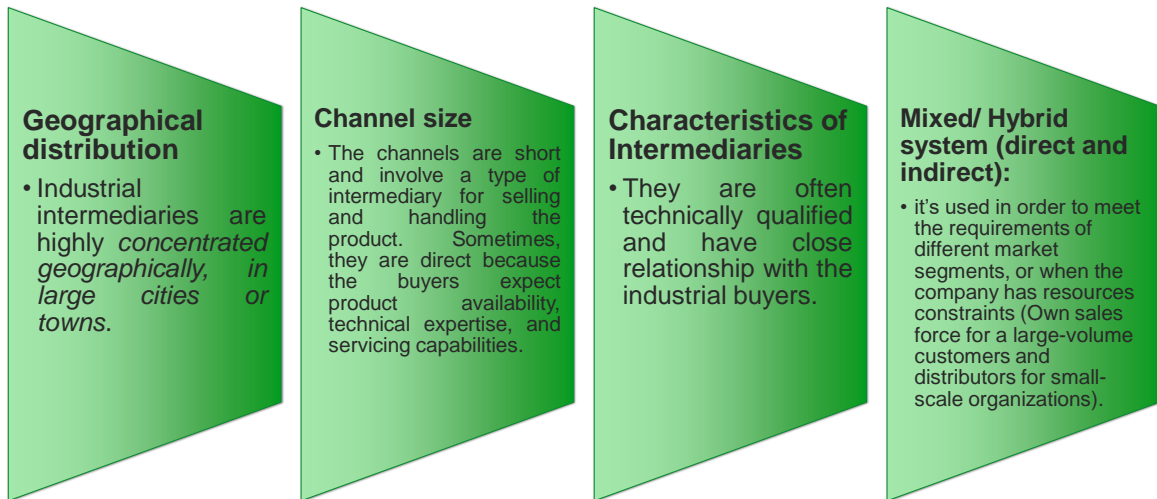
What are the factors affecting the nature of Business Marketing Channels?



1. Distinctive Nature of BM Channels

01

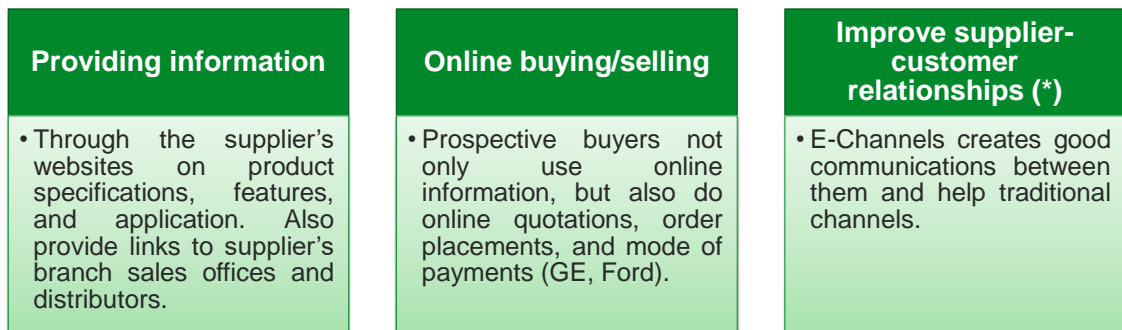
❖ Factors affecting the nature of BM Channels:



1. Distinctive Nature of BM Channels

01

❖ Electronic Channels (E-Channels):



(*) Steven Wheeler and Evan Hirsh, Channel Champions: How Leading Companies Build New Strategies to serve Customers" (San Francisco: Jossey-Bass Publishers, 1999). P12.

1. Distinctive Nature of BM Channels

01



What can the Middlemen support the manufacturers/ organizations?



Why do the Business Customers would like to buy products from the Distributors?



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1. Distinctive Nature of BM Channels

01

❖ Why Business Customers buy from Distributors?

Variety: An availability of products at the distributors shops, which *meets most of the requirements of small-scale organizations.*

Liberal credit: Often this is offered by the local distributors who is familiar with the financial needs of the local customers.



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2. Participants in BM Channels

02

❖ Intermediaries are classified on the basis of number of functions they perform:

1. Manufacturer's Branch/ Regional Sales Offices.
2. Manufacturers Representatives (Agents).
3. Industrial Distributors (Dealers).
4. Brokers.
5. Commission Merchants.
6. Jobbers.

Please read the text (p.217)!



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2. Participants in BM Channels

02

1. Manufacturer's Branch/ Regional Sales Offices:

- Goods dispatched from manufacturer's factories to the branch warehouses in full truck loads.
- Thereafter, goods distributed to the business customers or distributors.
- Thus, spending less freight cost and supplying reliable delivery service to customers.

-> Two types: *Stock-carrying* and *Non stock-carrying offices* (technical supports only).



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2. Participants in BM Channels

02

2. Manufacturers Representatives (Agents):

- Promote sales and Secure orders.
- Fulfill the market information.
- Do not buy, store or finance the transaction.
- Receive commission on sales and tasks involved.

-> *Necessary for small and medium-sized firms.*

-> *Good product knowledge, sound understanding of the markets, excellent contacts with the buyers.*

-> *Represent for many products but not competitive each others.*



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2. Participants in BM Channels

02

3. Industrial Distributors (Dealers)

- Buying, storage and warehousing.
- Promotion, selling, offering credit.
- Transporting or delivering of products.
- Providing information and customer services.

-> *Most important intermediary in channels.*

-> *Small and Independent firms.*

-> *Serving narrow geographic market.*

-> *Major categories: General-line Distributors; Specialized Distributors; Combination Houses (sell to industrial customers and retailers).*



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2. Participants in BM Channels

02

4. Brokers:

- Bring together buyer and seller by providing information on what is available and required.
- Find potential buyer, negotiate & complete sales.
- Do not buy, or handle product.
- To be paid on commission basis.

-> *Short-term relationship.*

-> *Their role is vital when information on markets and products is not available completely.*



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2. Participants in BM Channels

02

5. Commission Merchants:

- Deal with bulk commodities such as raw materials.
- Arrange with manufacturers who sell in large quantity.
- Do not buy materials, but perform the inspection, physical handling, negotiating process and completing sales.
- To be paid on commission basis by manufacturers.



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2. Participants in BM Channels

02

6. Jobbers:

- Deal with bulk commodities such as coal, iron.
- Take title to the goods that they sell.
- Do not store or take physical possession.
- **Example:** Coal jobber purchase coal from the mines based on orders in hand. Once the jobber identifies the customers for the grade and quantity of coal, the coal is shipped directly from the mines to the customers.



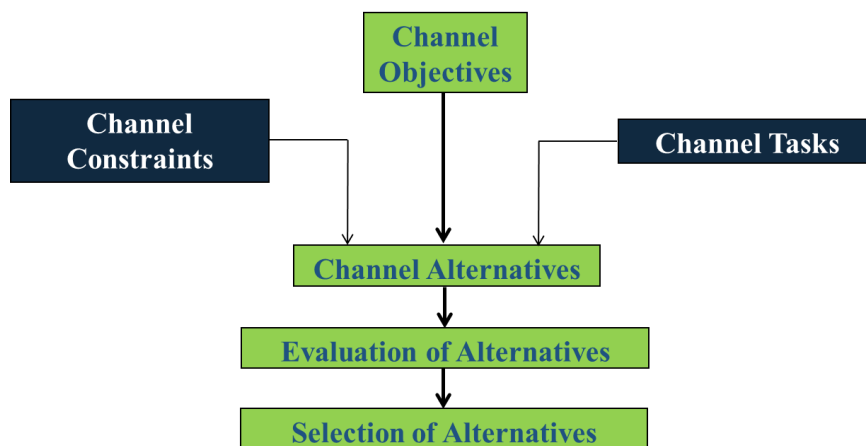
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3. Channel Design Process

03

❖ The Channel Design Framework:



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Webster F.E., Jr., *Industrial Marketing Strategy*, John Wiley & Sons, 2nd edition, p.219.



3. Channel Design Process

03

❖ The Channel Design Framework:

1. Developing channel objectives.
2. Analyzing channel constraints.
3. Analyzing channel tasks.
4. Identifying the channel alternatives:
 - Number of channels.
 - Types of intermediaries/ participants.
 - Number of intermediaries (intent, select or exclu).
 - Term and Conditions of channel members.
5. Evaluating the channel alternatives.
6. Selection of channel structure.



4. Administering Channel Members

04

What is the process of administering Channel Members?



4. Administering Channel Members

04

❖ Managing or administering the channel members includes:

1. Selecting intermediaries
2. Motivating channel members
3. Controlling channel conflicts
4. Evaluating performance of channel members



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4. Administering Channel Members

04

1. Selecting intermediaries:

- ❖ This is a continuous process and not a part of channel design. Some intermediaries leave the channel and others are terminated by the industrial firms.

**WHAT COULD YOU PROPOSE TO
BECOME YOUR MIDDLEMEN?**



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4. Administering Channel Members

04

1. Selecting intermediaries:

- ❖ Criteria for selection that differ depending on the type of middlemen and the firm's product is:
 - Location.
 - Relevant experience.
 - Financial standing.
 - Infrastructure (warehouse, sales & service, office).
 - Contacts/ Relationships.



4. Administering Channel Members

04

1. Selecting intermediaries:

- ❖ The steps to be done by Business Marketers:
 - Generate a list of candidates.
 - Visit each of prospective channel members to assess capabilities, facilities, and interests.
 - Negotiate with short-listed intermediaries.
 - Finalize the agreement identifying responsibility and compensation of both parties.



4. Administering Channel Members

04

2. Motivating channel members:

- Motivating the intermediaries to achieve top performance should start with understanding their needs, perceptions, and outlook.
- The quality of support from middlemen will depend on the motivational techniques used.

WHAT COULD YOU OFFER TO YOUR
MIDDLEMEN AS MOTIVATION PROGRAM?



4. Administering Channel Members

04

2. Motivating channel members:

- ❖ Some of motivational tools are as follow:
 - Partnership Concept (Distribution Agreements).
 - Vendor Managed Inventory System.
 - Reasonable Discounts and Commission.
 - Distributor Training and Coaching.
 - Channel Positioning compared with competitors.
 - Other Motivational Practices.



4. Administering Channel Members

04

3. Controlling Channel Conflicts:

- ❖ There will be always the conflicts/ tensions in network because the differences in the objectives and perceptions of the channel members. That will damage channel performance.

What are the channel conflicts?
What kinds of channel conflicts are there?



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4. Administering Channel Members

04

❖ Sources of Channel Conflicts:

Sources of Conflicts	Examples
Differences in objectives	Manufacturers want long-term profitability but distributors prefer short-term profitability
Dealings with customers	Distributors and agents feel cheated when the manufacturer deals with large customers and asks intermediaries to serve small customers
Differences in interests	The manufacturer feels that the distributor is not giving adequate attention to the company's products. The distributor is interested in products that are fast moving or have higher profits.



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Webster F.E., Jr., *Industrial Marketing Strategy*, John Wiley & Sons, 2nd edition, p.227.



4. Administering Channel Members

04

❖ Sources of Channel Conflicts:

Sources of Conflicts	Examples
Differences in perception	The manufacturer wants the dealer to carry a higher stocks but the dealer does not want as the dealer's perception of the market is pessimistic.
Compensation	Manufacturer's representatives (agents) feel that the commission percentage offered by the manufacturer is not adequate. The manufacturer thinks otherwise.
Unclear territory boundaries	The territory boundaries between distributors or between distributors and agents are not clear, resulting in competition among the company's intermediaries to secure business from the same customers.



Webster F.E., Jr., *Industrial Marketing Strategy*, John Wiley & Sons, 2nd edition, p.227.



4. Administering Channel Members

04

3. Controlling Channel Conflicts:

- ❖ Undertake survey or Conduct formal/ informal discussions with the intermediaries.
- ❖ Build effective communication network, joint goal-setting, diplomacy, mediation, arbitration, and developing VMS.



4. Administering Channel Members

04

4. Evaluating performance of channel members:

- ❖ Evaluate the performance of channel members.
- ❖ For the bad intermediaries, they are needed to be counseled, retrained, re-motivated, or terminated.
- ❖ The factors to be used for an evaluation may be:
 - Sales achieved via sales quota.
 - Average inventory levels.
 - Customer delivery performance.
 - Customer's complaints.
 - Cooperation in market's feedback.
 - Support for the new products.
 - New customer generated.


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4. Administering Channel Members

04

❖ Weighted Factor Method:

Evaluation factors	Weightage (A)	Evaluation (B)	Middlemen Score (A) x (B)
Sales achieved	0.40	8	3.20
Customer delivery service	0.20	6	1.20
Customer complaints	0.15	6	0.90
Market feedback	0.10	5	0.50
New customers generated	0.15	4	0.60
Minimum Total Score = 6.0	1.00		6.40


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Webster F.E., Jr., *Industrial Marketing Strategy*, John Wiley & Sons, 2nd edition, p.228.



5. Supply Chain and Logistics Management

05

❖ Supply Chain Management:

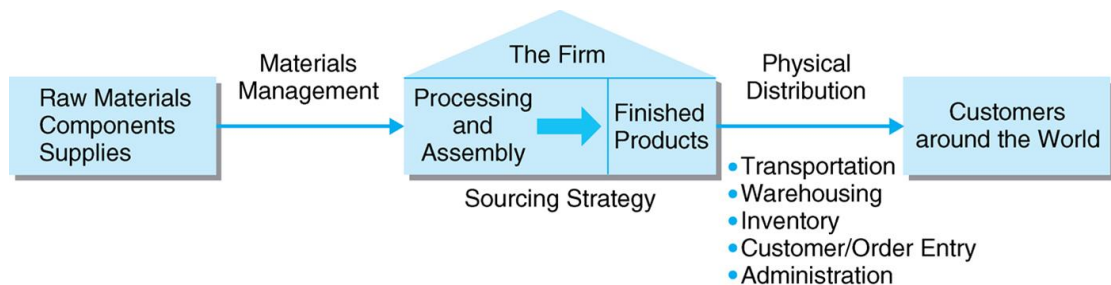
- “The process of planning, implementing, and controlling the efficient, cost effective flow and storage of raw materials, finished goods, and related information from the point-of-origin to the point-of-consumption for the purpose of conforming to customer requirements”. (Council of Logistics Management).



5. Supply Chain and Logistics Management

05

❖ Example of Supply Chain Management:



Nguồn: Kotabe & Hilsen (2008), *Global Marketing Management*, 4th Edition, John Wiley & Sons, Inc., trang 508.



5. Supply Chain and Logistics Management

05

❖ Supply Chain Management:

- SCM includes all the activities that are connected with moving goods from raw material stage through various operations to the ultimate customers or end-users.
- The major objectives of SCM are:
 - ✓ Reduce cost per unit for end users.
 - ✓ Minimize order-to-delivery cycle time.
 - ✓ Reduce waste and duplication.
 - ✓ Ensure superior delivery service.

-> All are for customer satisfaction by delivering superior customer value.

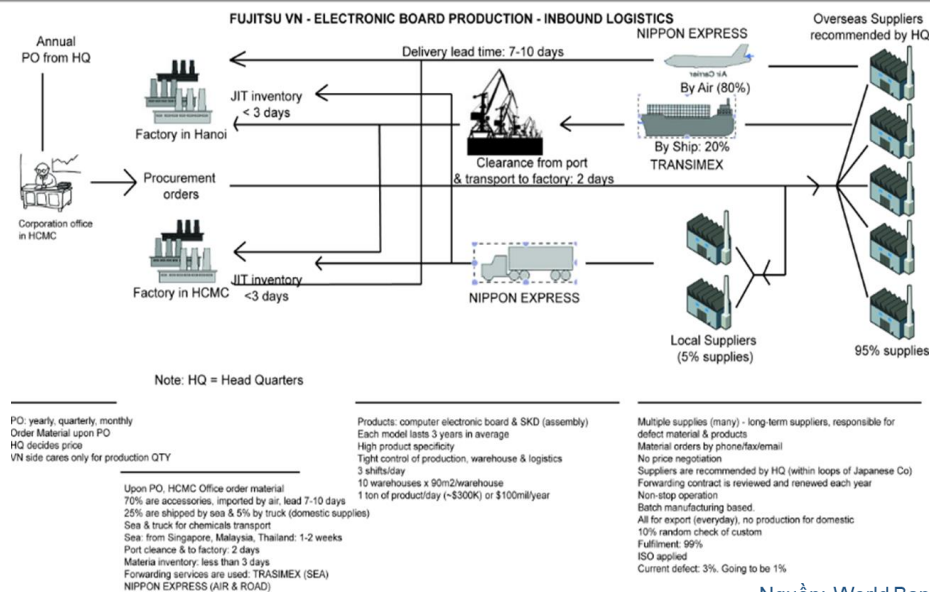


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5. Supply Chain and Logistics Management

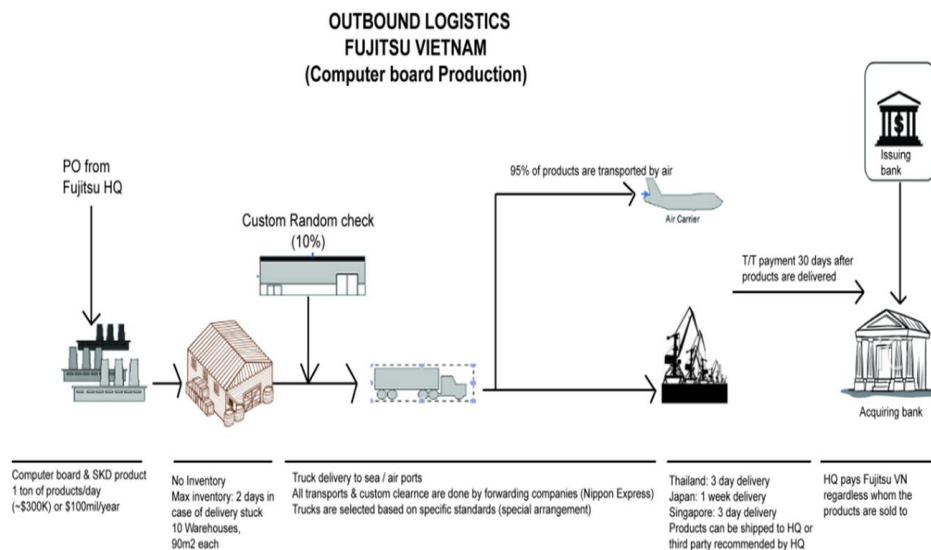
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Nguồn: World Bank's Study in Vietnam

5. Supply Chain and Logistics Management

05



Nguồn: World Bank's Study in Vietnam

5. Supply Chain and Logistics Management

05

❖ Logistics Management:

- Having the right thing at the right place at the right time and at the right costs.
- Logistics refers to the design and management of all activities (mainly transportation, warehousing, and inventory) necessary to make materials available for manufacturing and to make finished goods available to customers, as they are needed and in the condition required.

Webster F.E., Jr., *Industrial Marketing Strategy*, John Wiley & Sons, 2nd edition, p.232.

5. Supply Chain and Logistics Management

05

❖ Scope of logistics can include:

1. Inventory management and control.
2. Customer service.
3. Transportation.
4. Warehousing.
5. Plant and warehouse locations.
6. Order processing.
7. Logistics communications.
8. Packaging.
9. Material handling.



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6. Market logistics/ Physical distribution

06

- ❖ An capability to efficiently deliver the goods can create a value for customers as a source of savings in costs.
- ❖ The companies with superior logistics performance gain higher percentage of customer loyalty (Donald Bowerson's study).



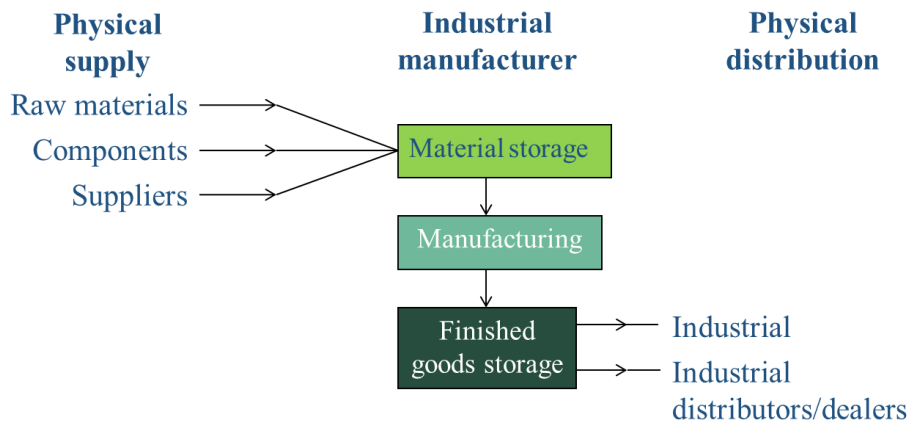
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6. Market logistics/ Physical distribution

06

❖ Business Logistics System



Webster F.E., Jr., *Industrial Marketing Strategy*, John Wiley & Sons, 2nd edition, p.233.



6. Market logistics/ Physical distribution

06

Just-In-Time (JIT) System

All suppliers of materials and supplies must deliver products few hours before they are used. The system expects the suppliers to deliver products at the precise time and in the exact quantity needed by the customers. The quality of products must be perfect as there is no inspection. The suppliers must coordinate with the customer's production schedule. The frequency of deliveries are more.



6. Market logistics/ Physical distribution

06

❖ Tasks of Physical Distribution

Tasks	Brief Description
Transportation	It is the means of moving goods from production unit to customers. It is the most important cost area in physical distribution.
Warehousing	It provides storage space for products which are made available to customers when needed. It can improve customer service and reduce transportation costs.
Inventory control	Inventory is used to ensure the products are available to customers in the right product-mix, at the right location, and at the right time.
Packaging	It provides protection to products and maintains product identity when products arrive at the market place.
Material handling	It increases speed and minimizes costs of order-picking, moving products between storage and transport carriers, loading and unloading operations.



Webster F.E., Jr., *Industrial Marketing Strategy*, John Wiley & Sons, 2nd edition, p.235.



6. Market logistics/ Physical distribution

06

❖ Tasks of Physical Distribution

Tasks	Brief Description
Order processing	It starts the physical distribution process and directs various activities which are necessary to deliver the products to customers. Speed and accuracy of order processing affect customer service and costs.
Communication	Information is exchanged between the company's physical distribution or marketing logistics department and its customers. It assists in performing various tasks.
Factory and warehouse locations	Right locations of manufacturing plants and warehouse (or godowns) increase customer service and reduce transportation (or freight) costs.
Customer service	The result of physical distribution activities is customer service. It creates customer value (or benefits) that has impact on the company's market share, total cost, and profitability.



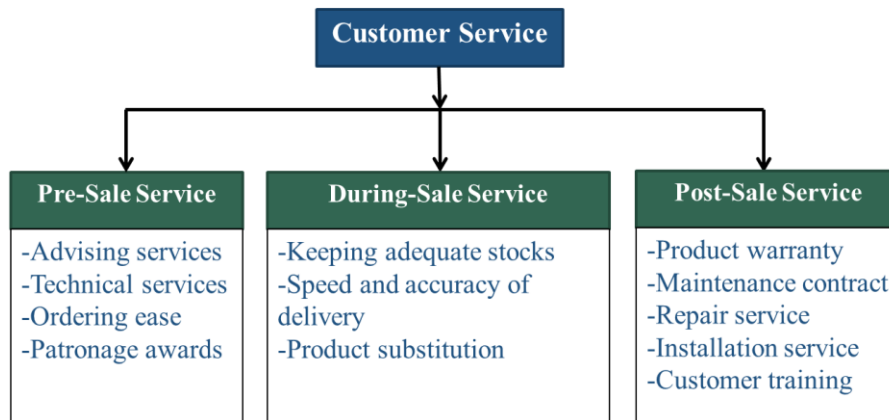
Webster F.E., Jr., *Industrial Marketing Strategy*, John Wiley & Sons, 2nd edition, p.235.



6. Market logistics/ Physical distribution

06

❖ Elements of Customer service:



Webster F.E., Jr., *Industrial Marketing Strategy*, John Wiley & Sons, 2nd edition, p.237.



KẾT THÚC



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