Chapter 5: Designing Channel Structures and Strategies

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LEARNING OBJECTIVES

- Explain why manufacturers prefer more coverage, especially in fast-moving consumer goods industries, combined with a downstream channel member that limits its assortment in their product category.
- Explain why downstream channel members prefer less coverage, combined with a greater assortment in each manufacturer's product category.
- Recognize why limited distribution is preferable to brands with a high-end positioning or a narrow target market.
- Describe the special challenges of multiple formats and dual distribution.

- Managers gain insights that enable them to make three strategic channel decisions pertaining to
  1. Channel intensity
  2. Channel types
  3. Dual distribution

CHANNEL INTENSITY DECISIONS

- **Intensive distribution** means that a brand can be purchased from many possible outlets in a trading area.
  - An extreme version is **saturation,** which implies that it is available in *every* possible outlet.
- **Exclusive distribution** means in contrast that the brand can be purchased only through one vendor in a trading area.

- **General rule:**

  The more intensively a manufacturer distributes its brand in a market, **the less** the manufacturer can influence how channel members perform marketing channel functions.

- **Downstream Channel Members' Perspective on Intensive Distribution**
  - For downstream channel members
    - More intense brand coverage can spell the ruin of their channel advantage.
    - ***Each downstream- channel member prefers exclusivity.***

- From the manufacturers perspective, intra-brand price competition at the retail level is desirable—at least in the short term
- **Bait-and-switch**
- **Free riding**
  - *A retailer will not tolerate free riding indefinitely.*

- **Upstream Channel Members' Perspective on Intensive Distribution**
  - For upstream suppliers, wide coverage makes it easier for buyers to find brands.
  - Downstream channel partners often lose interest in carrying or pushing a supplier's offering if doing so puts them in competition with many other- channels

- Intensive distribution thus can lead to lackluster sales support, defection by- downstream channel members. What is a manufacturer to do?

1. The contract between the manufacturer and downstream channel member.
2. Another solution is to invest in a pull strategy that increases brand equity.
3. Third solution is **resale price maintenance (RPM).**
4. Fourth, widely generally applicable solution for a manufacturer with low sales support is simply to limit its market coverage by carefully establishing some degree of distribution selectivity.

The manufacturer faces two critical questions:

- How much coverage should we aim to achieve?
- In a given product category, how many brands should our downstream channel member carry?

- **Channel Competition to Prevent Complacency (Factor 1)**
  - Manufacturers seek to improve their relative bargaining power with strong retailers by selling to and helping weaker, alternative members
  - Some degree of intra-brand competition benefits the channel by encouraging each channel member's best efforts, without putting it into an impossible situation.

- **Product Category (Factor 2)**
  - Convenience goods: Given an acceptable brand choice, buyers take what is on offer, rather than search for their favorite brand.
  - FMCG brand market share is disproportionately related to distribution coverage .
  - Consumers of convenience goods, such as milk or copier/printer paper, also demand high spatial convenience and quick delivery .
  - Shopping goods: an intermediate degree of selectivity is likely more desirable.
  - Specialty goods: exclusive distribution should be acceptable and desirable to the buyer.

- **Brand Strategy: Premium and Niche Positioning (Factor 3)**
  - Premium positioning brand strategy
    - The manufacturer likely prefers channel members that excel in handling high-end brands.
    - Broadening coverage to other outlets often dilutes the brand's superior-quality positioning

- Niche positioning brand strategy
  - The more restricted the target market, the more selective the distribution
  - Channel members are less interested in niche brands than in brands with broad appeal

- **Channel Influence (Factor 4)**
  - Many manufacturers **seek inordinate influences over their downstream channel members**.
    - Selective distribution
    - Exclusivity distribution

- Creating reward power
  - Intra-brand competition
    - Exclusive or limited market coverage
    - Intensive coverage
- Promoting investments by downstream channel members

- **Dependence Balancing (Factor 5)**
  - Trading territory exclusivity for category exclusivity
  - Reassuring channel partners

- **Opportunity Cost (Factor 6)**
  - In intensely competitive categories, manufacturers similarly are more reluctant to limit the number of downstream trading partners.
  - Downstream channel members also hesitate to grant selectivity in categories that are intensely competitive.

- **Transaction Costs (Factor 7)**
  - The transaction costs of serving some accounts may outpace the coverage-based benefits they' offer
    - Manufacturers limit the number of trading partners to reduce selling expenses.
    - Manufacturers that offer high levels of support to each channel member as a matter of policy tend to distribute more selectively to limit the total costs of their sophisticated channel support.
    - To the extent that there are fewer downstream channel members means lower turnover, there is less need to recruit, train, and provide service to new' resellers.
    - Fewer channel partners tend to engage in fewer but larger transactions
    - Fewer but larger orders imply more accurate demand forecasting
    - From the resellers standpoint, dealing with fewer brands similarly offers important economies.

- **Other Manufacturers Strategies (Factor 8)**
  - Brand building
  - New product introductions
  - Branded variants
  - Mitigating the costs of selective distribution

CHANNEL TYPE DECISIONS

- Channel equity
- Degree of intensity
- Ordering processes
- Cross-shop matter
- Cherry-picking
- The Internet

DUAL DISTRIBUTION DECISIONS

- Dual **distribution** (i.e., going to market through both third parties and one's own distribution divisions) may appear to be just a variation on the theme of multiple formats.
  - Third parties compete with each other.
  - Third parties compete with manufacturer.

- **The Demonstration Argument**
  - The demonstration argument holds that company outlets show independent channels the brand's potential and how best to sell it
- **Carrier-Rider Relationships**
  - Piggybacking channel

CLOSING CHANNEL GAPS

- **Closing Service Gaps**
  1. Expand or retract the level of service outputs provided.
  2. Offer multiple, tiered service output levels to appeal to different segments.
  3. Alter the list of segments targeted.

- **Closing Cost Gaps**
  1. Changing the roles of current channel members
  2. Investing in new distribution technologies
  3. Introducing new distribution function specialists to improve channel functioning

THE END!

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