Chapter 15

Supply chain and channel management
Today’s concepts

• Understand the importance of supply chain and marketing channels.

• Understand the difference between different type of marketing channels.

• Describe how marketing channels are managed.
We are going to talk about the third P of marketing: **Place** which includes all the activities required to get the **right product** to the **right customer** when the customer wants it!
• So far: market research, consumer and business behavior, market segmentation, targeting markets, developing new products, and setting prices.

• …but all the above is useless without the right product placement strategy!
How does Amazon manage to ship so many orders so quickly?
How does Amazon manage to ship so many orders so quickly?

• **15,000** Kiva robots across 10 U.S. warehouses

• Cut operating costs by one-fifth and get packages out the door more quickly (especially during periods of high demand)
How does Amazon manage to ship so many orders so quickly?
How does Amazon manage to ship so many orders so quickly?

- **Anticipatory shipping!**
  - A system of delivering products to customers before they place an order
  - **How does Amazon know what we will buy?**
How does Amazon manage to ship so many orders so quickly?

• Anticipatory shipping!
  – A system of delivering products to customers before they place an order
  – How does Amazon know what we will buy?
    • (Lots of) DATA about us + Machine Learning (predictive algorithms)
    • EXTRA: Interesting reading from Praveen Kopalle
Supply chain represents all the organizations that figure into any part of the process of producing, promoting, and delivering an offering or product to its user.

Marketing channels: how the supply chain is organized and managed
Supply chain (simplified)

Some of the activities at this level include:
- Making the actual product (the most obvious)
- Research & Development (R&D)
- Brand Management
- Formation of sales force (manufacturer “reps”)
- Marketing research
- Supply chain management (efficiency, savings)

This level or step in the supply chain may (or may not) include a wholesaler like Costco

Retailers, distributors, and manufacturers will often work closely with one another to create a more efficient supply chain, which can improve sales and profitability. It can even result in savings for the consumer.

If the consumer is not happy, no one along the supply chain is happy!
- Consumer research!
- Quality!
- Reputation!
- Business ethics!
Supply chain (simplified)

What is more efficient? And why?
1. Supply chain with a distribution center
2. Supply chain without a distribution center
   • i.e., manufacturer delivers directly to store
What is more efficient? And why?
1. Supply chain with a distribution center
   The distribution center serves as a place to accumulate merchandise from many suppliers and then allocate it to stores in the quantities they need.
Note that some entities can have more than one role!

- Costco, Home Depot act both as *retailers* and *wholesalers*
  - When they sell to other businesses
  - When they sell to consumers

- Any other example?
• **Streamline** the number of transactions an organization must make

Source: http://2012books.lardbucket.org/books/marketing-principles-v2.0/s11-using-marketing-channels-to-cr.html
• **Increase value** for consumers
  – Costco offers very competitive prices by cutting deals with manufacturers

• **Retailers are more efficient and effective**
  – Lower inventory
  – Have what you need in stock → sales increase
• Fulfilling delivery promises
  – Deliver on time!

• Meeting customer expectations
  – Have the product currently promoted
  – Avoid service failures and keep customers satisfied!

• Important to have a reliable and efficient supply chain
  – Break down: buy product on Amazon to be delivered Saturday, but UPS fail to deliver
• Limit product selection to most popular
  – 4,000 vs 40,000 (in standard groceries stores)
• Lower cost by buying and selling in bulks
• Very efficient re-stock of products
  – From factory to costumers in less than 36 hours
• Delivery great customer value
  – Low prices
  – High quality
  – Keep it simple
    • Box not shopping bags
    • No ads, always low prices
• Many entities are involved
• Relationship are important
• Conflicts can arise!
  – Amazon vs USPS
Managing supply chain

Types of Channel Conflict

**Vertical Channel Conflict**
(Different levels in the same channel)

**Horizontal Channel Conflict**
(Same level within the channel)

**Multichannel Conflict**
(Different market channels)

*Arises between the different levels in the same channel.* E.g., The conflict between the manufacturer and the wholesaler regarding price, quantity, marketing activities, etc.

*Arises between the same level in the same channel.* E.g., the conflict between two retailers of the same manufacturer faces disparity in terms of sales target, area coverage, promotional schemes, pricing schemes, etc.

*Arises between the different market channels* participating in the common sale for the same brand. E.g., If a manufacturer uses two market channels, online and offline channel and the product is available at a much lower price on a website than is available with the retailer, the multichannel conflict arises.
Managing the Channel Conflict

Form the association between the channel partners. This can be done through joint membership among the intermediaries. Every channel partner works as one entity. So that everyone understands the role and operations of each other thereby reducing the role ambiguities. The channel partners must decide a single goal in terms of either increased market share, survival, profit maximization, high quality, customer satisfaction, etc. with the intention to avoid conflicts.

Any expert in another organization is included in the advisory committee or board of directors to reduce the conflicts through their expert opinions.

Diplomacy, the partners in the conflict send one person from each side to resolve the conflict. Mediation, a third person is involved who tries to resolve the conflict through his skills of conciliation. Arbitration, when both the parties agree to present their arguments to the arbitrator and agree to his decision. Last resort: lawsuit.
• Supply chain is very important
  – Adds value to consumers, retailers, etc
  – It affects many other aspects of marketing
    • Delivery of product
    • Customers expectations

• Managing it effectively is challenging
  – Many entities involved with often different goals
  – Conflicts: vertical, horizontal, multichannel
Marketing channel types

We are going to discuss several ways in which the marketing channel can be organized and classified.
Depending on the entities participating in the channel we have:

1. **Direct marketing channel**
   - No intermediary level

2. **Indirect marketing channel**
   - At least one intermediary level
• Which channel is better?
  – It depends...

• Direct channel (disintermediation)
  – Product can be sold more cheaply...
  – ...but retailers needs buying power and excellent warehousing capabilities to purchase, store, and deliver a product
    • Walmart, Costco can do it! But not your “local” grocery store!
    • Article: Walmart aims to cut supply chain cost (https://www.ft.com/content/891c7878-f895-11de-beb8-00144feab49a)
• Pros of indirect marketing
  – Retailer does not need to have warehousing capabilities (lots of hassles involved!)
  – Retailer can obtain better inventory management
  – Distributor can help the producer sell greater quantities of a product
What (do you think) is the trend today?
What (do you think) is the trend today?

- The trend today is toward disintermediation
- Internet makes it easier for consumers and businesses to contact one another without going through any middlemen
  - Booking trips is (mostly) an online practice today

- However doesn’t work well for some product/service
  - Insurance, Coca-cola
  - Can you think at another service/product for which direct marketing would not work well?
Every entity has its own goals.

Entities act as unified system.

2+ firms join at one level of the supply chain.

1 firm sets up two or more marketing channels.
Vertical channel

- **Administered** – one member have the power and control over the others
  - Large retailers such as Wal-Mart, Home Depot, and Barnes & Noble can exert strong influence on the manufacturers that supply the products they sell.
- **Contractual** – relationships governed by contracts
  - Franchising
- **Corporate** – all elements of distribution channel, from manufacturing to stores, owned by one entity
  - American apparel manufactures/produces and sells products
Two or more companies at one level join together to follow a new marketing opportunity.

Combine their financial, production, or marketing resources to accomplish more than any one company could alone.

- McDonald's places "express" versions of its restaurants in Wal-Mart stores. McDonald's benefits from Wal-Mart's considerable store traffic, while Wal-Mart keeps hungry shoppers from having to go elsewhere to eat.
Offline and online channel are two different channels that many company use

- Staples, Macy’s, etc
Marketing channels can be distinguished depending on

- The entities part of the supply chain
  - Direct vs indirect marketing channels
    - No Intermediaries vs 1+ intermediaries
- The relationship between the entities
  1. Conventional
  2. Vertical
- Number of companies at each level of the chain
  3. Horizontal
- Number of channels adopted
  4. Single vs multichannel