



Economic Policy 2023

View of Saint-Petersburg

December 21, 2023

Ivan Monich, PhD (www.Monich.pro)

Class starts at 14:00 (Beijing Time, GMT+8)

Why It Matters: Place: Distribution Channels

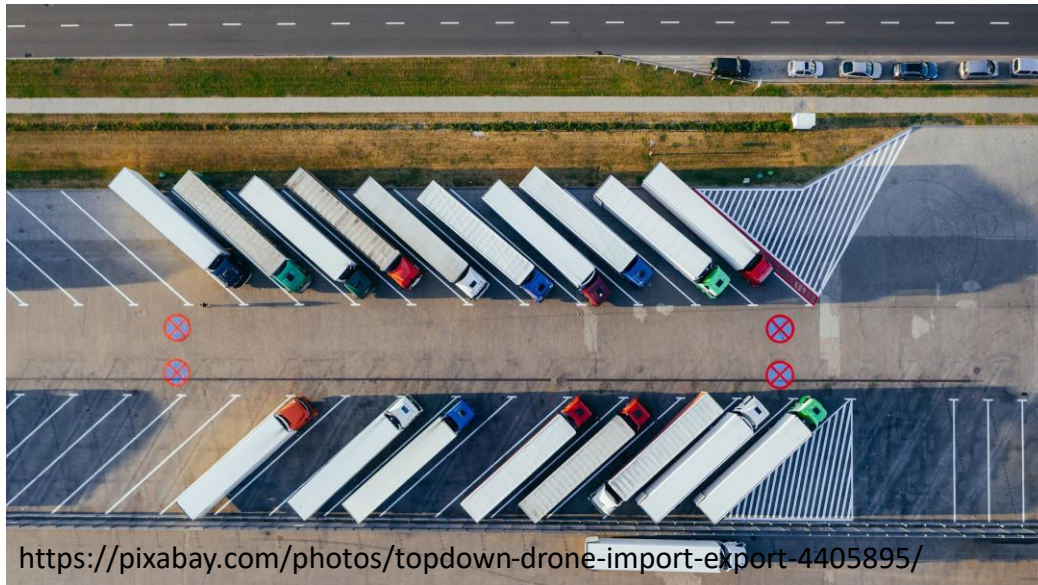
Learning Outcomes

- Explain what channels of distribution are and why organizations use them
- Explain how channels affect the marketing of products and services
- Describe types of retailers and explain how they are used as a channel of distribution
- Explain how integrated supply chain management supports an effective distribution strategy



Outcome: Using Channels of Distribution

What you'll learn to do: explain what channels of distribution are and why organizations use them



Define Channels of Distribution

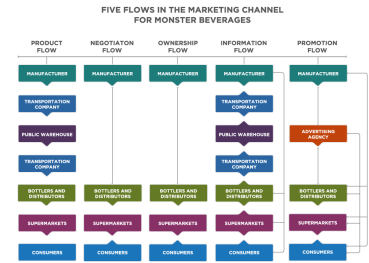
Evolution of Channels of Distribution

With the growth of specialization, particularly industrial specialization, and with improvements in methods of transportation and communication, channels of distribution have become longer and more complex.

Based on this relationship, we define a channel of distribution, also called a marketing channel, as sets of interdependent organizations involved in the process of making a product or service available for use or consumption, as well as providing a payment mechanism for the provider.



Channel Flows



One traditional framework that has been used to express the channel mechanism is the concept of flow. These flows reflect the many linkages that tie channel members and other agencies together in the distribution of goods and services. From the perspective of the channel manager, there are five important flows.

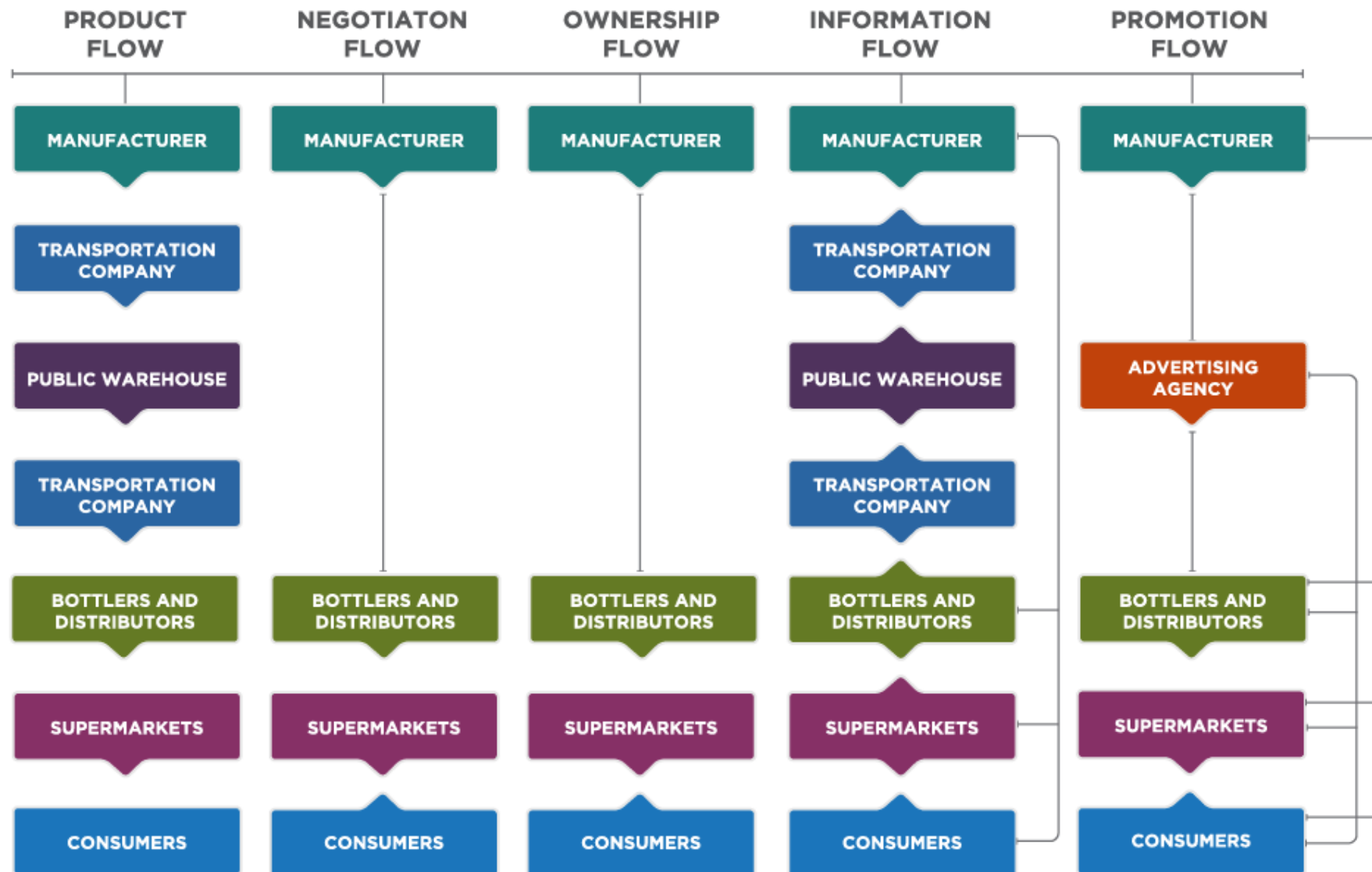
- Product flow:
- Negotiation flow
- Ownership flow:
- Information flow:
- Promotion flow:



0:30

el Flow

FIVE FLOWS IN THE MARKETING CHANNEL FOR MONSTER BEVERAGES



Channel flows

Product flow: the bottlers receive and process the bases and syrups

Negotiation flow: the bottlers buy concentrate, sell product and collect revenue from customers

Ownership flow: distributors acquire the title of the syrups and own the product until it's sold to supermarkets

Information flow: bottlers communicate product options to customers and communicate demand and needs to Coca-Cola

Promotion flow: bottlers communicate benefits and provide promotional materials to customers

“

While many view our Company as simply “Coca-Cola,” our system operates through multiple local channels. Our Company manufactures and sells concentrates, beverage bases and syrups to bottling operations, owns the brands and is responsible for consumer brand marketing initiatives. Our bottling partners manufacture, package, merchandise and distribute the final branded beverages to our customers and vending partners, who then sell our products to consumers.

All bottling partners work closely with customers — grocery stores, restaurants, street vendors, convenience stores, movie theaters and amusement parks, among many others — to execute localized strategies developed in partnership with our Company. Customers then sell our products to consumers at a rate of more than 1.9 billion servings a day.^[1]



Distribution Objectives

Introduction.

The primary purpose of any channel of distribution is to efficiently bridge the gap between the producer of a product and the user of it, whether the parties are located in the same community or in different countries thousands of miles apart.



<https://pixabay.com/photos/parcels-packages-delivery-box-2484036/>



Channel Partners That Support Objectives

The channel is composed of different institutions that facilitate the transaction and the physical exchange. Institutions in channels fall into one of the following three categories:

- The producer of the product: a craftsman, manufacturer, farmer, or other producer
- The user of the product: an individual, household, business buyer, institution, or government
- Middlemen at the wholesale and/or retail level

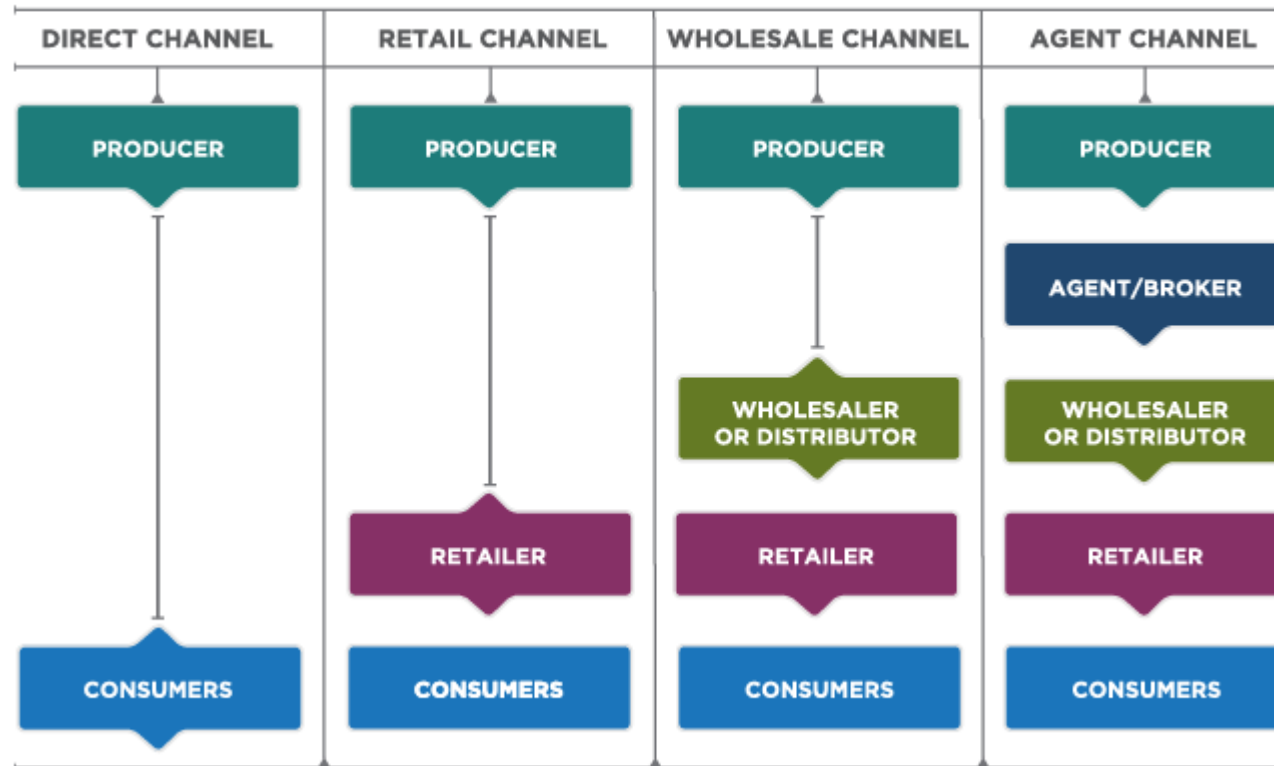
Not all channel members perform the same function. Channel partners perform the following three important functions:

- Transactional functions: buying, selling, and risk assumption
- Logistical functions: assembly, storage, sorting, and transportation
- Facilitating functions: post-purchase service and maintenance, financing, information dissemination, and channel coordination or leadership



Channel Structures

MARKETING CHANNELS FOR CONSUMER PRODUCTS



The Role of Intermediaries

Wholesalers play an important role as intermediaries. Intermediaries act as a link in the distribution process, but the roles they fill are broader than simply connecting the different channel partners. Wholesalers, often called “merchant wholesalers,” help move goods between producers and retailers.

Let’s look at each of the functions that a merchant wholesaler fulfills.

<https://www.istockphoto.com/photo/short-long-and-direct-distribution-channel-gm1048069280-280332438>



Purchasing

Wholesalers purchase very large quantities of goods directly from producers or from other wholesalers. By purchasing large quantities or volumes, wholesalers are able to secure significantly lower prices.



Source: <https://pixabay.com/vectors/shopping-shopping-bag-paper-sales-3158120/>



Warehousing and Transportation

Once the wholesaler has purchased a mass quantity of goods, it needs to get them to a place where they can be purchased by consumers. This is a complex and expensive process.

Source: <https://www.istockphoto.com/photo/a-warehouse-worker-takes-inventory-in-the-storage-room-gm1367106352-437455765>



Grading and Packaging

Wholesalers buy a very large quantity of goods and then break that quantity down into smaller lots. The process of breaking large quantities into smaller lots that will be resold is called bulk breaking. Often this includes physically sorting, grading, and assembling the goods.

Bulk pricing

Source: <https://www.istockphoto.com/photo/inflation-concept-gm1385196919-444099357>



Risk Bearing

Wholesalers either take title to the goods they purchase, or they own the goods they purchase. There are two primary consequences of this, both of which are both very important to the distribution channel. First, it means that the wholesaler finances the purchase of the goods and carries the cost of the goods in inventory until they are sold. Because this is a tremendous expense, it drives wholesalers to be accurate and efficient in their purchasing, warehousing, and transportation processes.



Marketing

Often, the wholesaler will fill a role in the promotion of the products that it distributes. This might include creating displays for the wholesaler's products and providing the display to retailers to increase sales. The wholesaler may advertise its products that are carried by many retailers.

Source: <https://pixabay.com/illustrations/social-media-social-marketing-5187243/>



Distribution

As distribution channels have evolved, some retailers, such as Walmart and Target, have grown so large that they have taken over aspects of the wholesale function. Still, it is unlikely that wholesalers will ever go away. Most retailers rely on wholesalers to fulfill the functions that we have discussed, and they simply do not have the capability or expertise to manage the full distribution process. Plus, many of the functions that wholesalers fill are performed most efficiently at scale. Wholesalers are able to focus on creating efficiencies for their retail channel partners that are very difficult to replicate on a small scale.



5-minute break

Marketing Channels vs. Supply Chains

What Is a Supply Chain?

The supply chain is a system of organizations, people, activities, information, and resources involved in moving a product or service from supplier to customer. Supply chain activities involve the transformation of natural resources, raw materials, and components into a finished product that is delivered to the end customer

Source: <https://pixabay.com/photos/supply-chain-supplying-goal-7139790/>



Supply chain

“

Supply Chain Management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party service providers, and customers. In essence, supply chain management integrates supply and demand management within and across companies. Supply Chain Management is an integrating function with primary responsibility for linking major business functions and business processes within and across companies into a cohesive and high-performing business model. It includes all of the logistics management activities noted above, as well as manufacturing operations, and it drives coordination of processes and activities with and across marketing, sales, product design, finance and information technology.[\[2\]](#)



Supply Chain and Marketing Channels

The supply chain and marketing channels can be differentiated in the following ways:

1. The supply chain is broader than marketing channels.
2. Marketing channels are purely customer facing.
3. Marketing channels are part of the marketing mix.



Task 1. Seminar.

Please choose the company and show its approach to Distribution channel building. Use the framework of the Distribution Channel from our lecture. Make a 3-5-minute speech on it by the end of the class. You may work in pairs.



Self Check

Check Your Understanding:

Answer the question(s) below to see how well you understand the topics covered in the previous section. This short quiz does not count toward your grade in the class

Sets of interdependent organizations participating in the process providing a payment mechanism for a provider while making a service or product accessible and available for use or consumption is the definition of _____.



☒ a channel of distribution

Correct

☐ positioning and differentiation

☐ product marketing



Managing Distribution Channels

What you'll learn to do: explain how channels affect the marketing of products and services

As you'll learn in this next section, much of marketing's role in the distribution process is identifying the right channels, creating and managing effective channel partnerships, and ensuring that the channel performance provides value to customers.

Learning Activities

- Optimizing Channels
- Third-Party Sales
- Service Outputs
- Self Check: Managing Distribution Channels



Optimizing Channels

The Channel Management Process. The channel management process contains five steps.

1. Analyze the Consumer
2. Establish the Channel Objectives
3. Specify Distribution Tasks
4. Evaluate and Select Among Channel Alternatives
5. Evaluating Channel Member Performance



1. Analyze the Consumer

We begin the process of channel management by answering two questions. First, to whom shall we sell this merchandise immediately? Second, who are our ultimate users and buyers? The immediate and ultimate customers may be identical or they may be quite separate. In both cases, certain basic questions apply: There is a need to know what the customer needs, where they buy, when they buy, why they buy from certain outlets, and how they buy.



2. Establish the Channel Objectives

Once customer needs are specified, the marketer can decide what the channel must achieve, which can be captured in the channel objectives. Channel objectives are based on customer requirements, the marketing strategy, and the company strategy and objectives. However, in cases where a company is just getting started, or an older company is trying to carve out a new market niche, the channel objectives may be the dominant objectives.

Source: <https://pixabay.com/photos/arrow-target-bullseye-goal-aim-2886223/>



3. Specify Distribution Tasks

After the distribution objectives are set, it is appropriate to determine the specific distribution tasks (functions) to be performed in that channel system. The channel manager must be very specific in describing the tasks and also detail how these tasks will change depending upon the situation.



4. Evaluate and Select Among Channel Alternatives

Determining the specific channel tasks is a prerequisite of the evaluation and selection process. There are four considerations for channel alternatives: number of levels, intensity at the various levels, types of intermediaries at each level, and application of selection criteria to channel alternatives. In addition, it is important to decide who will be in charge of the selected channels.

- Number of Levels
- Intensity at Each Level
- Types of Intermediaries and Application of Selection Criteria
- Who Should Lead?



5. Evaluating Channel Member Performance

The need to evaluate the performance level of the channel members is just as important as the evaluation of the other marketing functions. Clearly, the marketing mix is quite interdependent, and the failure of one component can cause the failure of the whole. There is one important difference, though: the channel member is dealing with independent business firms, rather than employees and activities under its control, these firms may be reluctant to change their practices.



The Human Aspect of Distribution

By its very nature, a channel of distribution is made up of people. Ideally, a channel member should coordinate his or her efforts with other members in such a way that the performance of the total distribution system to which he or she belongs is enhanced. This is rarely the case, though. Part of this lack of cooperation is due to the organizational structure of many channels, which encourages a channel member to be concerned only with channel members immediately adjacent to them, from whom they buy and to whom they sell.

Source: <https://pixabay.com/photos/adult-bald-beard-corporate-1868750/>



Role

Most channel members participate in several channels. Establishing the role of a channel member means defining what the behavior of the channel member should be. For example, a basic role prescription of the manufacturer may be to maximize the sales of his or her particular brand of product. This suggests that the manufacturer is to actively compete for market share and aggressively promote his or her brand. The role prescriptions of independent wholesalers, however, are likely to be quite different.



Communication

Channel communication is sending and receiving information that is relevant to the operation of the channel. It is critical for the channel member to foster an effective flow of information within the channel. Communication will take place only if the channel member is aware of the pitfalls that await. The channel manager should therefore try to detect any behavioral problems that inhibit the effective flow of information through the channel and try to solve these problems before the communication process in the channel becomes seriously distorted.



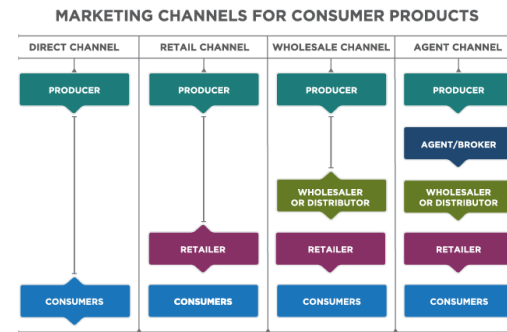
Conflict

Any time individuals or organizations must work together and rely on one another for personal success, conflict is inevitable. In a distribution channel, conflict usually arises in one of two forms: structural or behavioral.

Eric Schmidt, chairman and CEO of Google Inc., notes: “From my experience the most successful companies are the ones where there is enormous conflict.



Third-Party Sales



Throughout the channel structure there are a number of points where sales may occur.

The most straightforward of these is the direct channel, in which the producer sells directly to the consumer. In every other structure, multiple sales occur—from producer to wholesaler, from wholesaler to retailer, from retailer to buyer. In cases involving an intermediary, there is a third-party sale. Third-party sales are sales conducted by anyone other than the producer. Even when there are four or five parties involved, we refer to all of them as third parties.

Third-party sales are often vexing for marketers. When a company uses a direct sales approach, the marketer can devise a sales compensation structure that creates the right incentives for the sales team to sell the right products to the right customers at the right price. In a third-party sales situation, it is much more difficult to understand and influence the sales process.



Approaches to Support Third-Party Sales Success

If the marketer works for the producer, he or she will lose significant control and influence in the third-party sale, while the marketing team will gain control or power. How can a marketer approach third-party sales most effectively? The following approaches can be used:

1. Understand and align incentives.
2. Provide exceptional sales support.
3. Create demand for your product.



Service Outputs

As with each element of the marketing mix, different segments of customers have different needs with regard to place, or distribution. Service outputs offer a way to focus on the unique needs of a target buyer and plan for those in the distribution strategy. Service outputs are the productive outputs of the marketing channel that consumers value and desire.



Common Service Outputs

When considering the goals of channel management in meeting customer needs, there are a few broad service outputs that channels can address. The service outputs are explained from the perspective of the target customer, by identifying needs or preferences that a target customer might have:

Spacial convenience: Can I get the product at or near the location where I want it?

Timing of availability: Do I need the product immediately or am I willing to wait?

Quantity: Am I willing to buy in bulk or buy multiple items?

Assortment and variety: Do I have a very particular need or a flexible need? Am I looking for one or many options?

Service: Do I require assistance or support through the purchase process?

Information: Do I need information to make a purchase, or do I enter the buying process having already made a decision?



<https://nrf.com/retails-impact>

U.S. retail by the numbers



52 million

Jobs Supported by Retail



4.2 million

Retail Establishments



\$3.9 trillion

Total GDP Impact



32 million

Direct Retail Employment



\$1 trillion

Direct Labor Income



\$1.6 trillion

Direct Impact on GDP



Define Retailing

Retailing involves all activities required to market consumer goods and services to ultimate consumers who are purchasing for individual or family needs.

By definition, B2B purchases are not included in the retail channel since they are not made for individual or family needs. In practice this can be confusing because many retail outlets do serve both consumers and business customers



Types of Retailers

Beyond the distinctions in the products they provide, there are structural differences among retailers that influence their strategies and results. One of the reasons the retail industry is so large and powerful is its diversity. For example, stores vary in size, in the kinds of services that are provided, in the assortment of merchandise they carry, and in their ownership and management structures.



Department Stores

Department stores are characterized by their very wide product mixes. That is, they carry many different types of merchandise, which may include hardware, clothing, and appliances. Each type of merchandise is typically displayed in a different section or department within the store. The depth of the product mix depends on the store, but department stores' primary distinction is the ability to provide a wide range of products within a single store. For example, people shopping at Macy's can buy clothing for a woman, a man, and children, as well as house wares such as dishes and luggage.



Chain Stores

The 1920s saw the evolution of the chain store movement. Because chains were so large, they were able to buy a wide variety of merchandise in large quantity discounts. The discounts substantially lowered their cost compared to costs of single unit retailers. As a result, they could set retail prices that were lower than those of their small competitors and thereby increase their share of the market. Furthermore, chains were able to attract many customers because of their convenient locations, made possible by their financial resources and expertise in selection locations.



Supermarkets

Supermarkets evolved in the 1920s and 1930s. For example, Piggly Wiggly Food Stores, founded by Clarence Saunders around 1920, introduced self-service and customer checkout counters. Supermarkets are large, self-service stores with central checkout facilities. They carry an extensive line of food items and often nonfood products. There are 37,459 supermarkets operating in the United States, and the average store now carries nearly 44,000 products in roughly 46,500 square feet of space. The average customer visits a store just under twice a week, spending just over \$30 per trip. Supermarkets' entire approach to the distribution of food and household cleaning and maintenance products is to offer large assortments these goods at each store at a minimal price.



Discount Retailers

Discount retailers, like Ross Dress for Less and Grocery Outlet, are characterized by a focus on price as their main sales appeal. Merchandise assortments are generally broad and include both hard and soft goods, but assortments are typically limited to the most popular items, colors, and sizes. Traditional stores are usually large, self-service operations with long hours, free parking, and relatively simple fixtures. Online retailers such as Overstock.com have aggregated products and offered them at deep discounts. Generally, customers sacrifice having a reliable assortment of products to receive deep discounts on the available products.



Warehouse Retailers

Warehouse retailers provide a bare-bones shopping experience at very low prices. Costco is the dominant warehouse retailer, with \$138.4 billion in sales in 2018. Warehouse retailers streamline all operational aspects of their business and pass on the efficiency savings to customers. Costco generally uses a cost-plus pricing structure and provides goods in wholesale quantities.



Franchises

Entrepreneur
EUROPE



Franchises

Franchise 500

2022 Franchise 500 Ranking

Entrepreneur's 43rd annual Franchise 500® ranking shines a light on the unique challenges and changes that have shaped the franchise industry over the last year—and how franchisors have adapted and evolved to meet them.

Understanding the Ranking

<https://www.entrepreneur.com/franchise500>



2022 Franchise 500 Ranking

Entrepreneur’s 43rd annual Franchise 500® ranking shines a light on the unique challenges and changes that have shaped the franchise industry over the last year—and how franchisors have adapted and evolved to meet them.

Understanding the Ranking

Task 1

I want you to choose the company that offers the franchise and illustrate information on it like we did for the companies from the 2023 Franchise 500 Ranking list. Please, make a 3-5- minute speech. You may work in pairs.

<https://www.entrepreneur.com/franchise500>

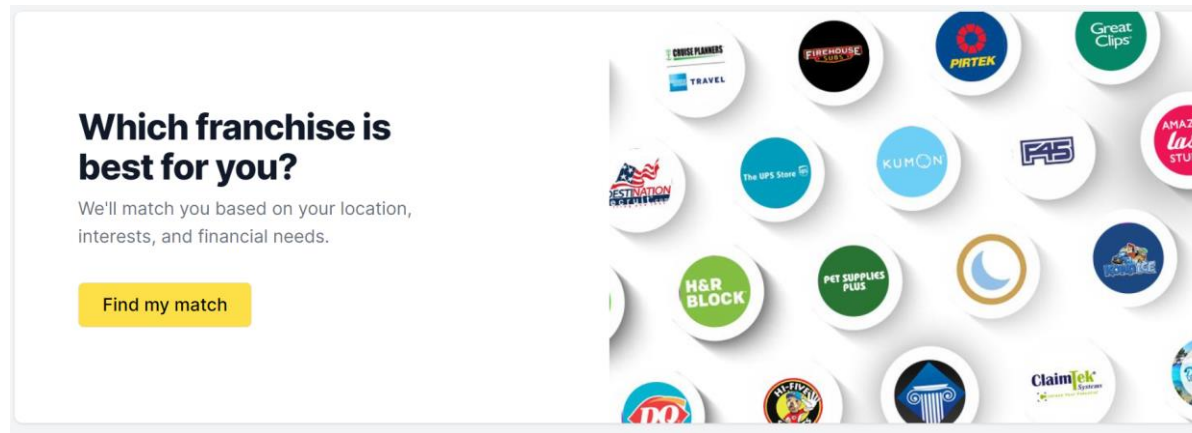


Image source: <https://www.entrepreneur.com/franchise500>

So far, we have reviewed the following companies:

1. Huawei 华为
2. Hidilao 海底捞
3. Dairy Queen 冰雪皇后
4. KFC 肯德基
5. Subway
6. Taco Bell
7. Pizza Hat 必胜客
8. Intercontinental Hotel Group
9. UPS
10. Seven/Eleven
11. Jersey Mike's Subs
12. Hilton Garden
13. Jollibee
14. _
15. IKEA 宜家
16. McDonald's 麦当劳
17. Starbucks 星巴克



Task 1

I want you to choose the company that offers the franchise and illustrate information on it like we did for the companies from the 2023 Franchise 500 Ranking list. Please, make a 3-5- minute speech. You may work in pairs.

<https://www.entrepreneur.com/franchise500>

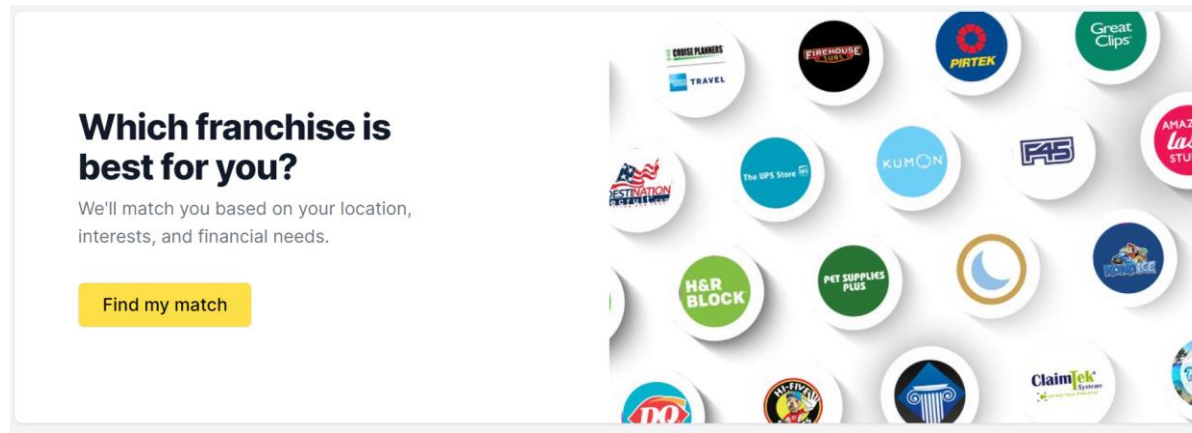


Image source: <https://www.entrepreneur.com/franchise500>

So far, we have reviewed the following companies:

1. Tide Cleaners
2. Mixue 蜜雪
3. Jimmy Johns
4. Hilton Garden
5. Holliday INN
6. Subway
7. Cha Panda 茶百道
8. Dairy Queen DQ
9. Pet want
10. Hampton by Hilton
11. Good Me
12. Ace Hardware
13. Express Employment Professionals
14. th
15. Disney
16. Planet Fitness
17. Enjoy Orange
18. Wendy's
19. 7-Eleven
20. Freedom Boat Club
21. The Maids
22. ~~Walmart~~
23. Jersey mikes subs
24. Meituan
25. Lawson
26. Xiaomi?
27. Dairy Queen



Nonstore Retailing

Beyond those mentioned in the categories above, there's a wide range of traditional and innovative retailing approaches.

Vending machines and point-of-sale kiosks have long been a popular retail device. Today they are becoming more targeted, such as companies selling easily forgotten items—such as small electronics devices and makeup items—to travelers in airports.



Presentation



Personnel

Retail employees are the face of the brand to the shopper. This is true of a sales associate who helps with a purchase decision, a waitperson in a restaurant, a hotel check-in clerk, or a checker in a grocery store who efficiently rings up purchases. Retail employees fill a weighty role in the brand for two reasons. First, they do work that has the potential to add immense value to the purchase process. When an employee is helpful and efficient with the selection and/or purchase of a product, it's an important and necessary aspect of the buyer's retail experience. The retail employees working directly with customers have a much more personal and profound impact on the brand experience of each shopper than the senior executives of the company or even store managers, who have less customer contact.



What AI tool do you use?

1. ~~OpenAI = ChatGPT 3.5 or 4 turbo~~
2. ~~Bard and Gemini~~
3. 百度 = 文心一言
4. ~~YandexGPT~~
5. ~~Bing~~



Q&A session



Can you propose some extra attractors for the retailers?

- Like food court with affordable prices at IKEA stores.
- Live Gaming streams at Huawei's flagship stores to demonstrate the TVs.
- Activities at the Apple's stores.

November 19, 2023, in Riverside 66 store

- Sam's club free food samples



Thank you for your attention

