

Chapter 15

Supply Chain and Channel Management

- Understand the importance of supply chain and marketing channels
- Understand the difference between different types of marketing channels
- Describe how marketing channels are managed

The third P: Place

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!**

Amazon



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- **15,000** Kiva robots across 10 U.S. warehouses
- Cut **operating costs by 1/5** and get **packages out the door more quickly**



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 - A system of delivering products to customers before they place an order
 - **How does Amazon know what we will buy?**

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- **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](https://www.forbes.com/sites/onmarketing/2014/01/28/why-amazons-anticipatory-shipping-is-pure-genius/#768204174605):
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- **Supply chain** represents **ALL** the organizations that figure into any part of the process of **producing, promoting, and delivering** a service or product to its user
- **Marketing channels**: how the supply chain is organized and managed

Supply chain (simplified)



Make

Some of the activities include:

- Making the actual product
- Research & Development
- Supply chain management (efficiency, savings)

Move/store

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

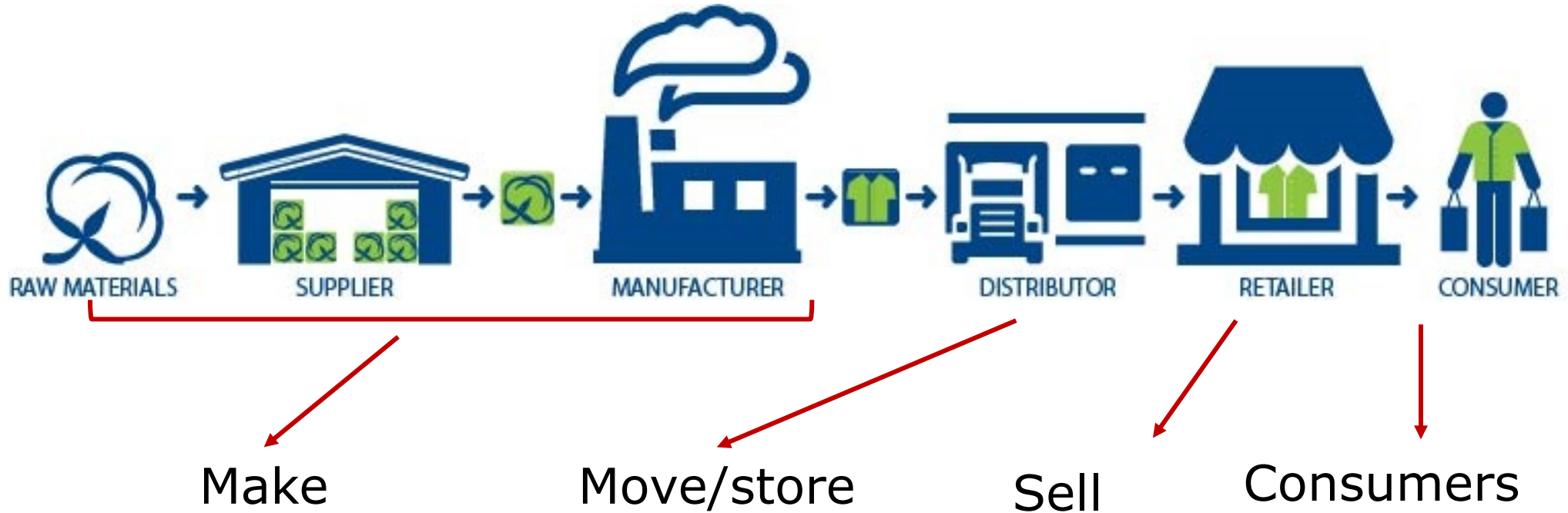
Sell

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.

Consumers

If the consumer is not happy, no one along the supply chain is happy!

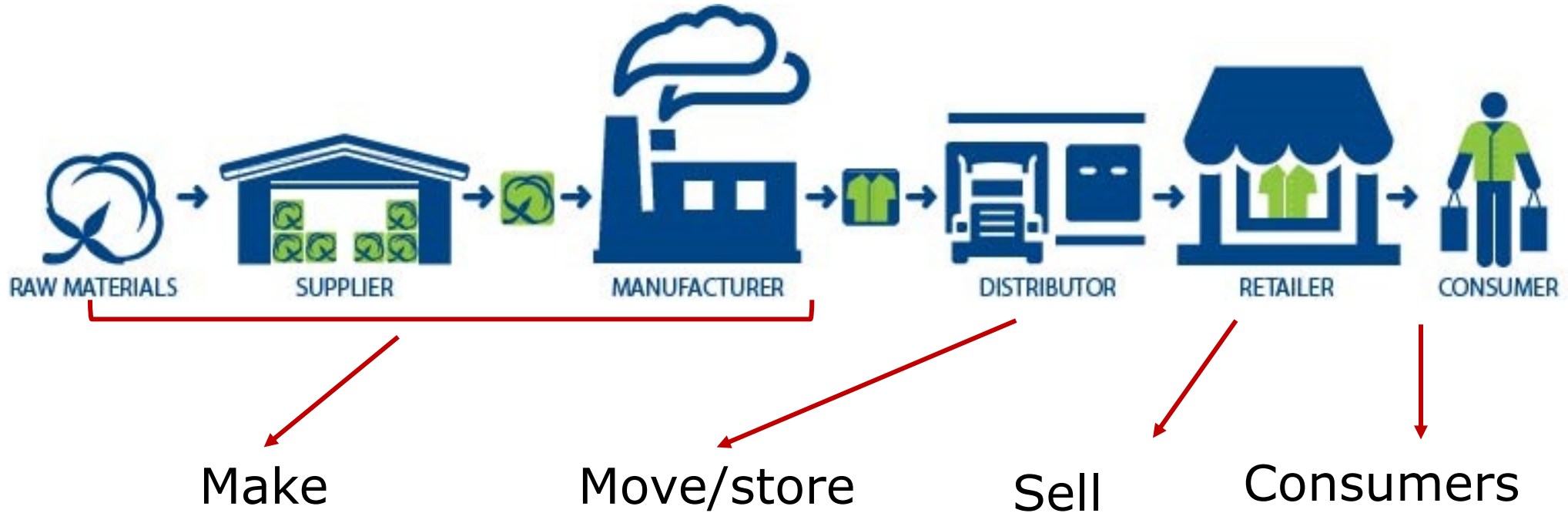
Supply chain (simplified)



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)

Supply chain (simplified)



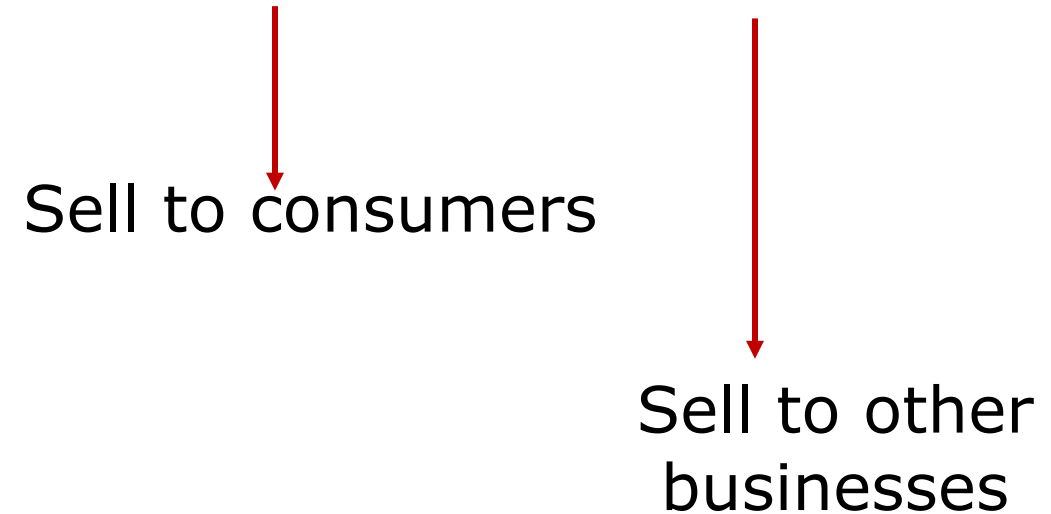
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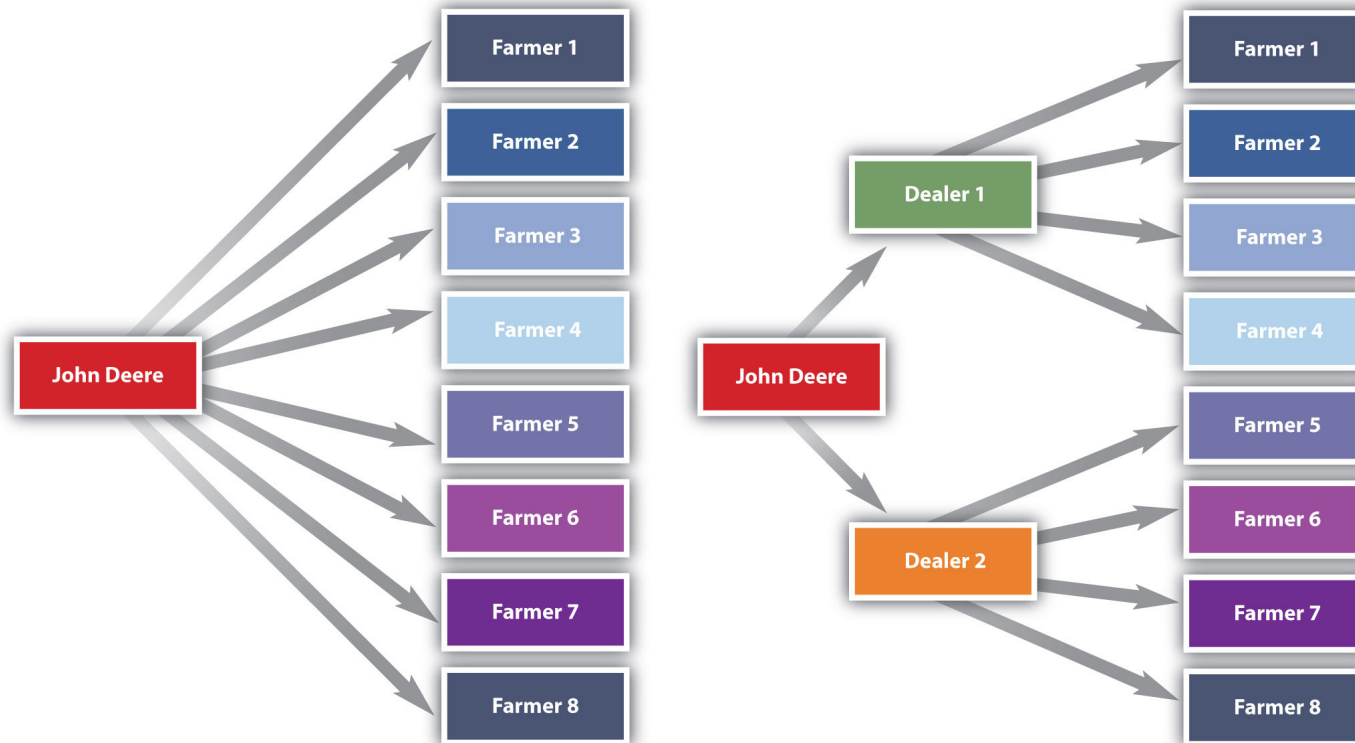
1) distribution center → accumulate merchandise from many suppliers and then allocate it to stores in the quantities they need

Note that some entities can have more than one role

- Costco, Home Depot act both as **retailers** and **wholesalers**



Streamline the number of transactions an organization must make



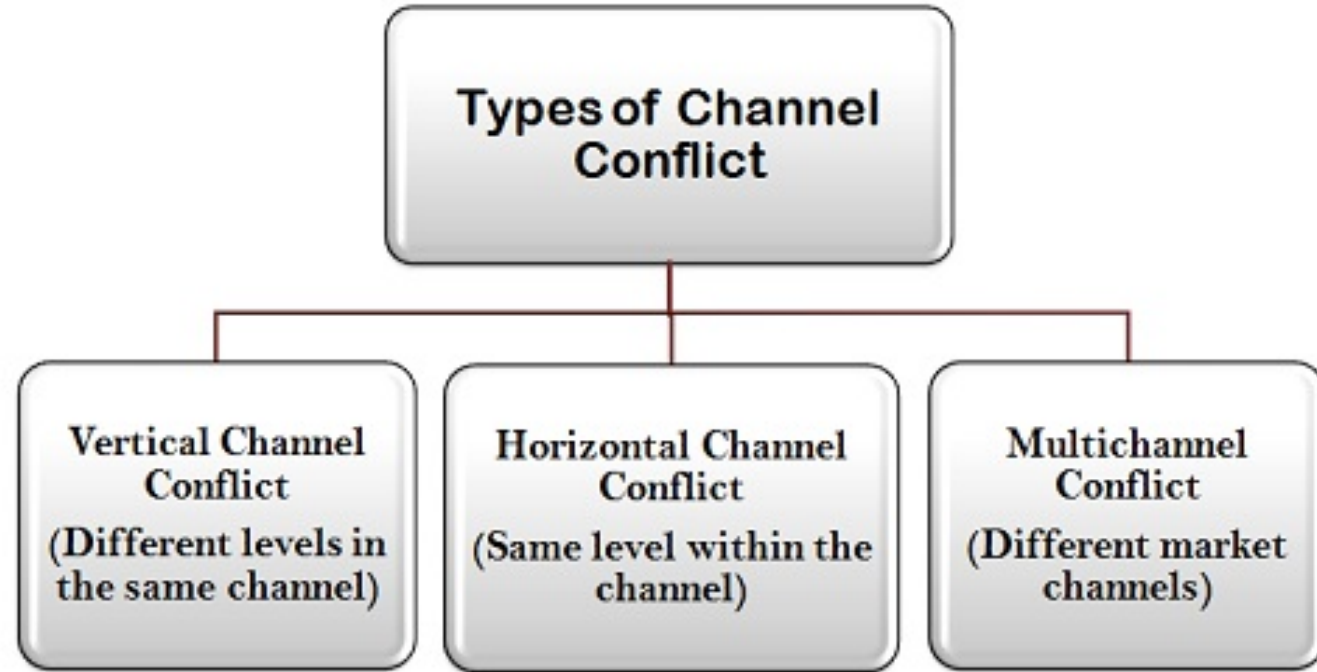
- **Increase value** for consumers
 - Costco offers very competitive prices by cutting deals with manufacturers
- **Retailers are more efficient and effective**
 - Lower inventory
 - Have what you need in stock → sales increase

- 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

- Many entities are involved
- Relationships are important
- Conflicts can arise!
 - Amazon vs USPS



Managing supply chain



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.

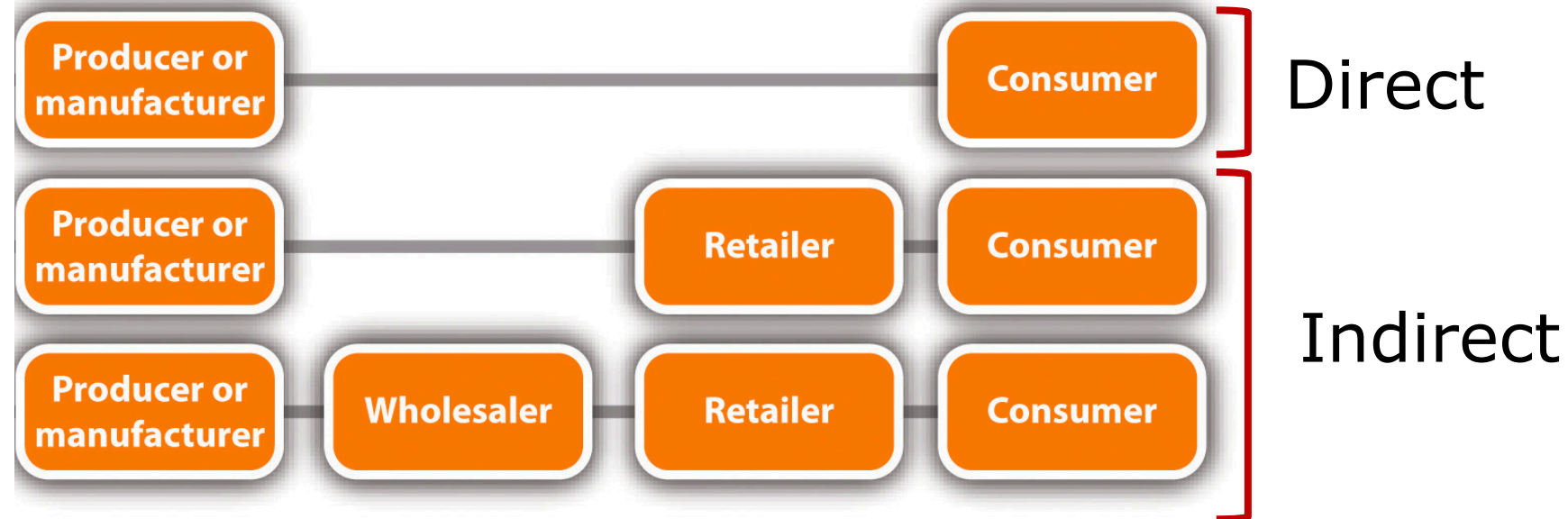
- Supply chain is very important
 - Adds value to consumers, retailers, etc
 - It affects many other aspects of marketing
 - Delivery of product
 - Customers expectations
- Managing it effectively is challenging
 - Many entities involved, often with different goals
 - Conflicts can arise

We are going to discuss several ways in which the marketing channel can be organized and classified

Direct vs indirect marketing channel

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 at lower prices
 - But seller has to perform all the actions that are normally allocated to several entities

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

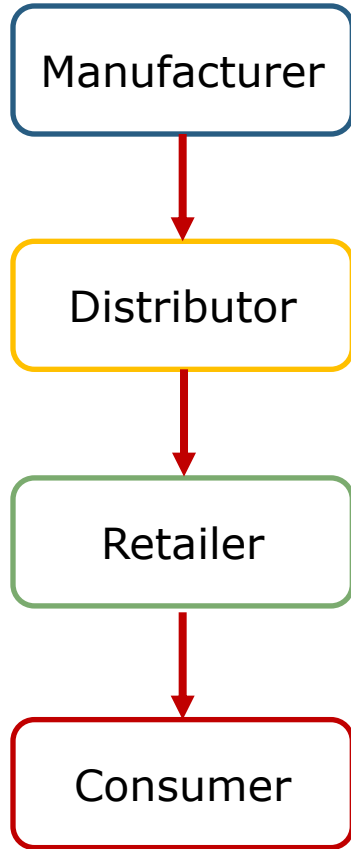
What do you think is the trend today?

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

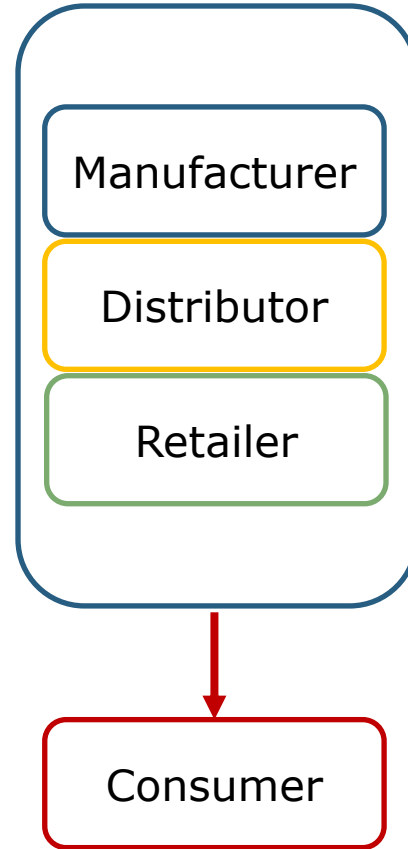
More types marketing channels

Conventional



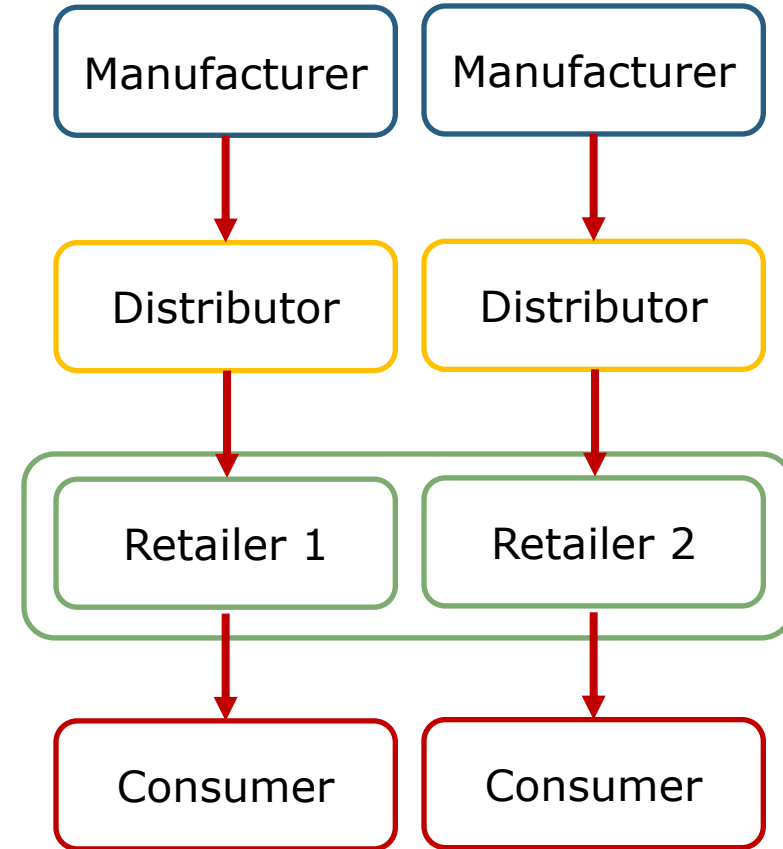
Every entity has its own goals

Vertical



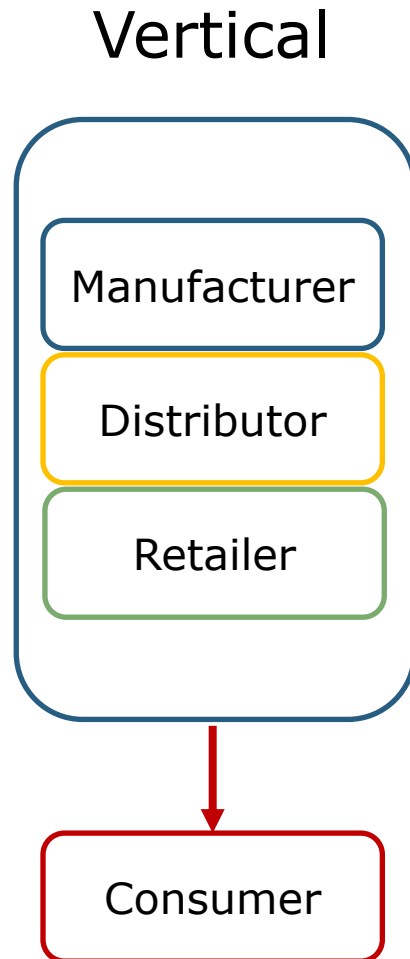
Entities act as unified system

Horizontal



2+ firms join at one level of the supply chain

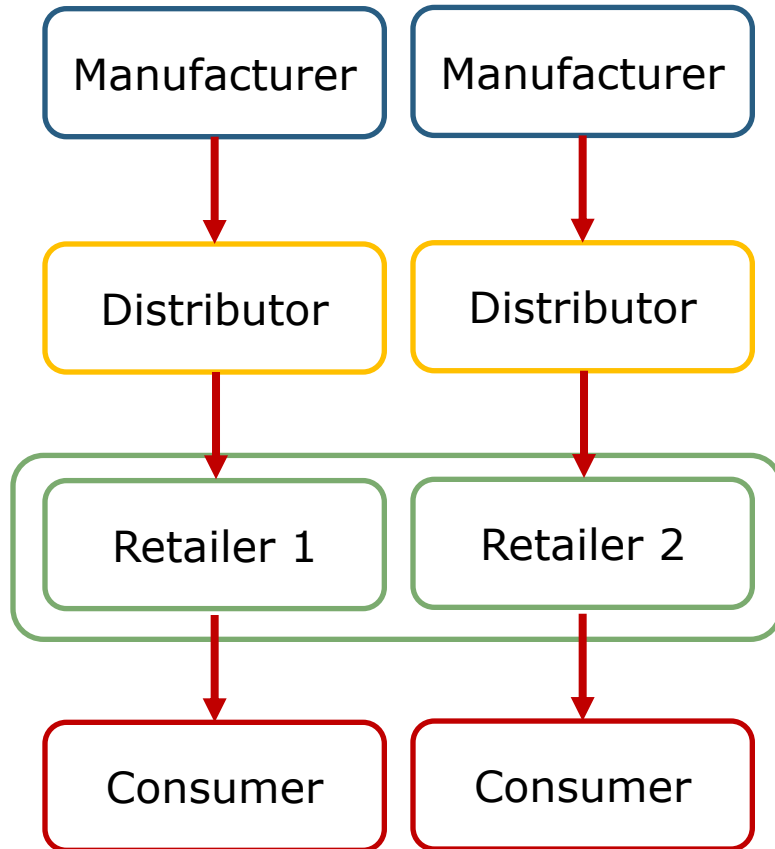
Vertical channel



- **Administered** – one member has 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

Horizontal channel

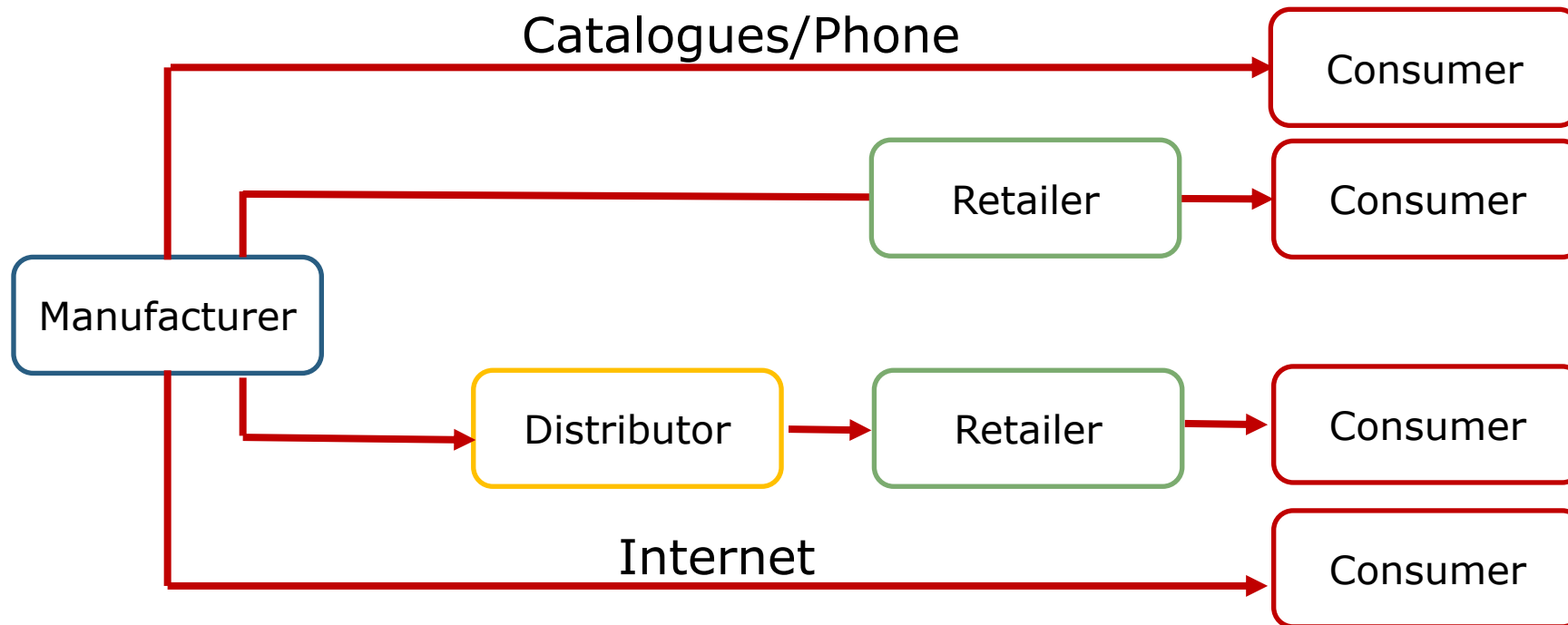
Horizontal



- 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 channels 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**