

# 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 Ships 2.5 Billion Packages A Year



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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!**
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  - **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

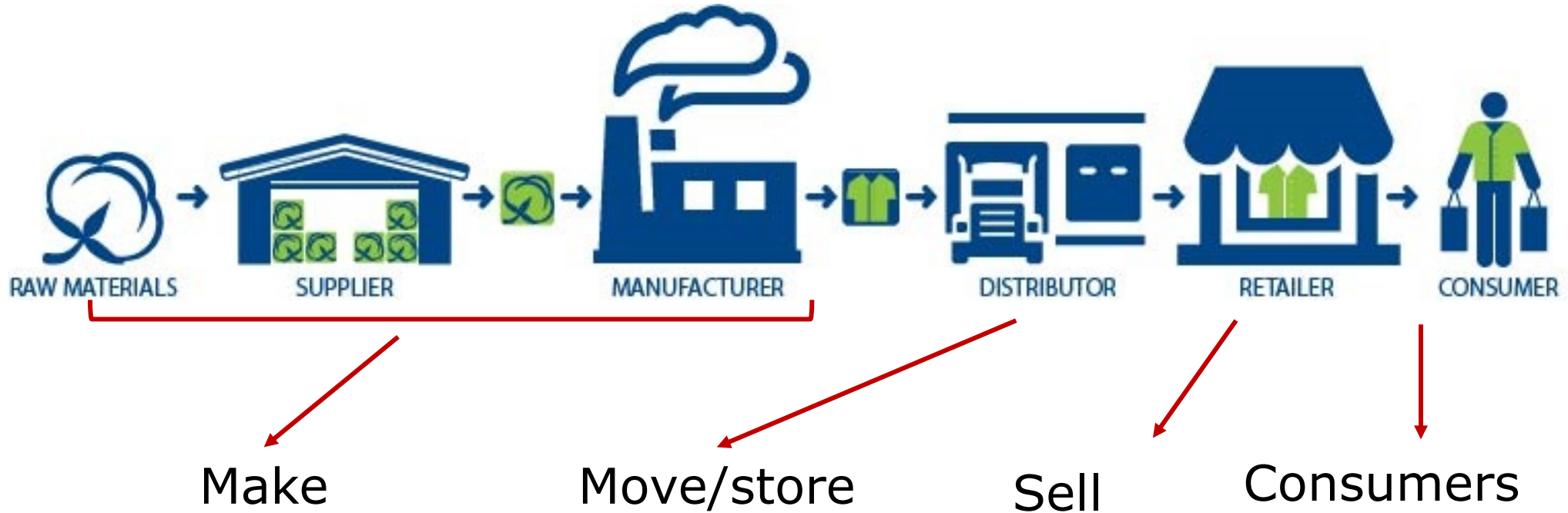
## Sell

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!

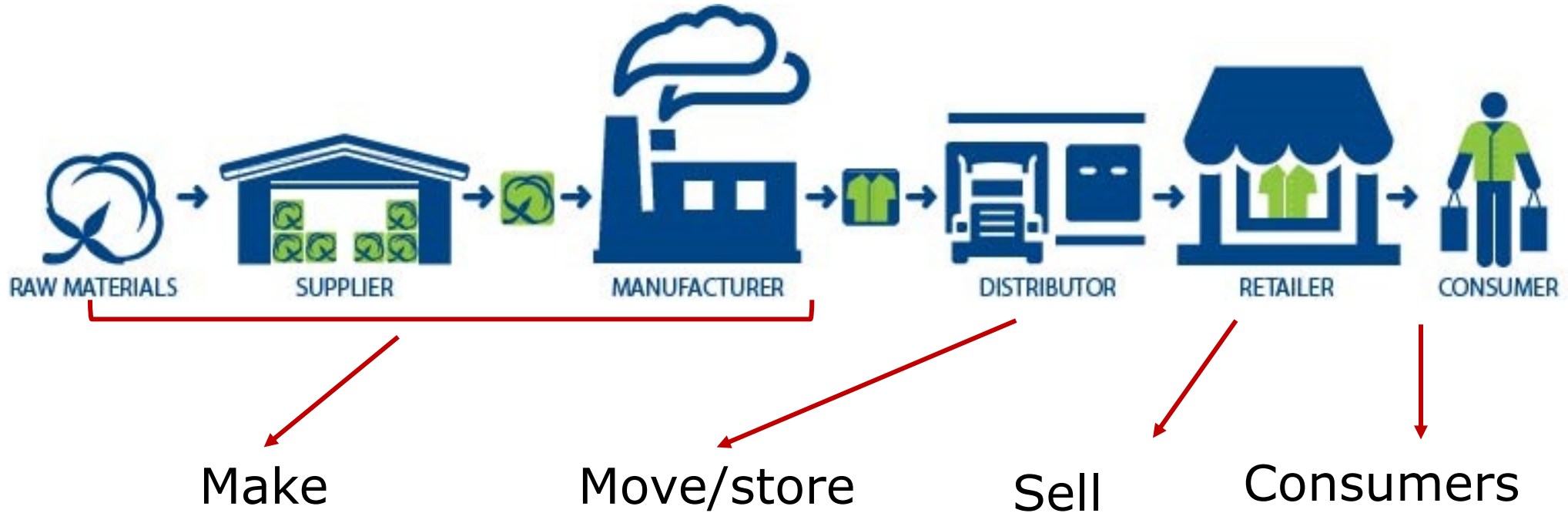
# Supply chain (simplified)



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)

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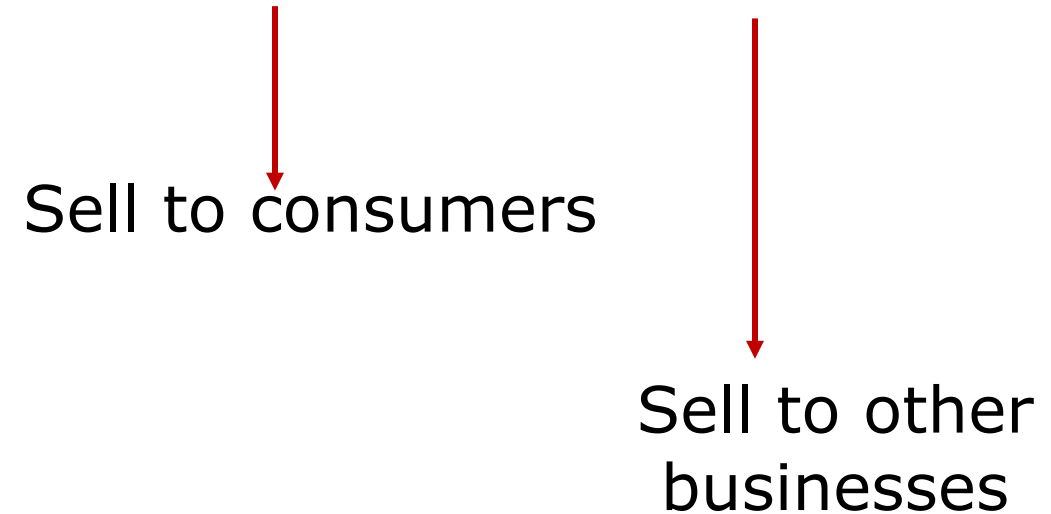
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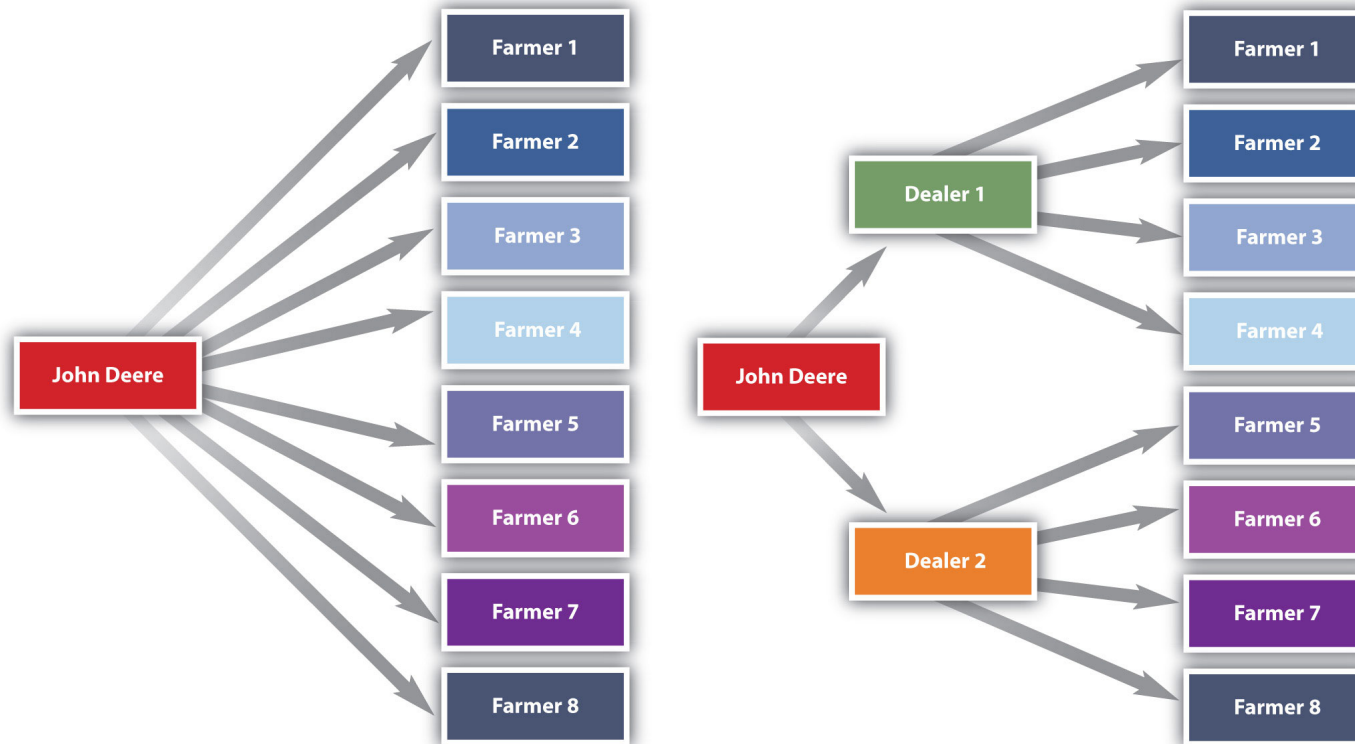
1) distribution center → accumulate merchandise from many suppliers and then allocate it to stores in the quantities they need

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
    - **Just-in-time** inventory system → deliver less products on a more frequent basis (typically used in apparel stores)
    - 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

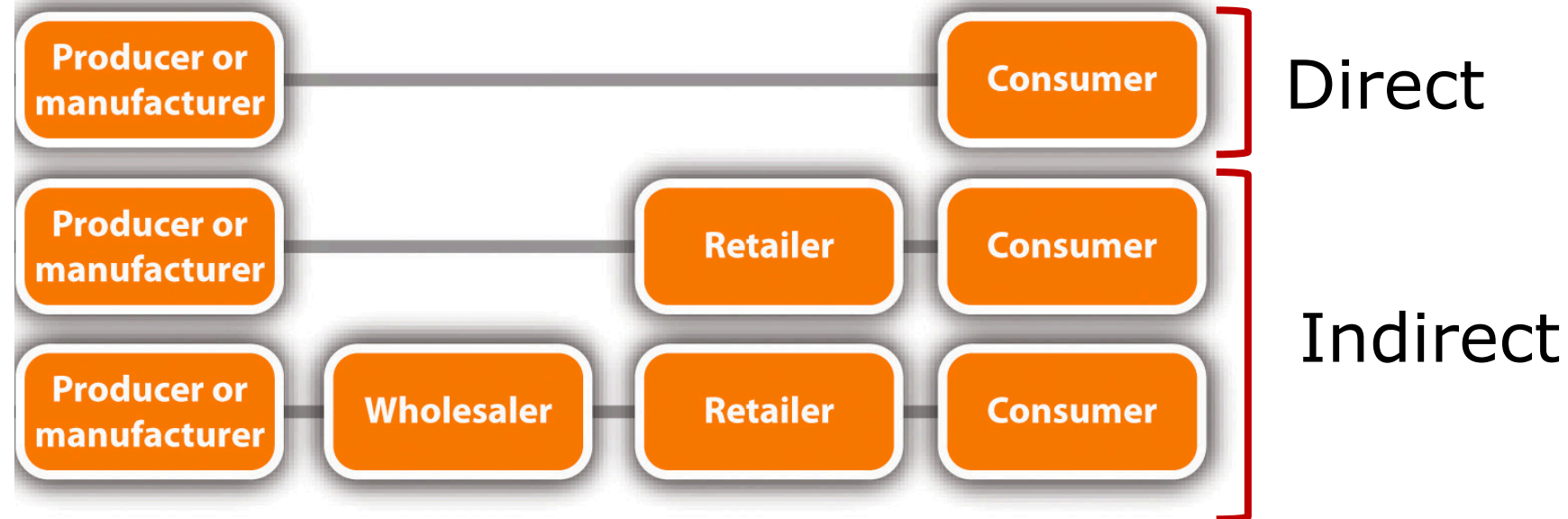
- Supply chain is very important
  - Adds value to consumers, retailers, etc.
  - It affects many other aspects of marketing
    - Delivery of product
    - Customers expectations

We are going to discuss several ways in which the supply chain 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?

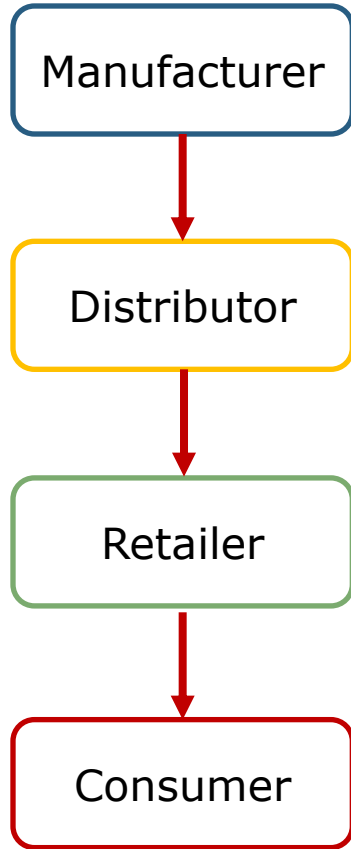


What do you think is the trend today?

- 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

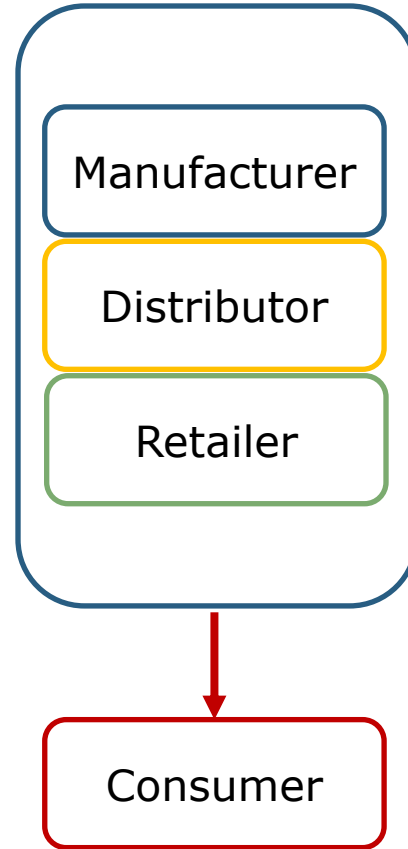
# More types marketing channels

## Conventional



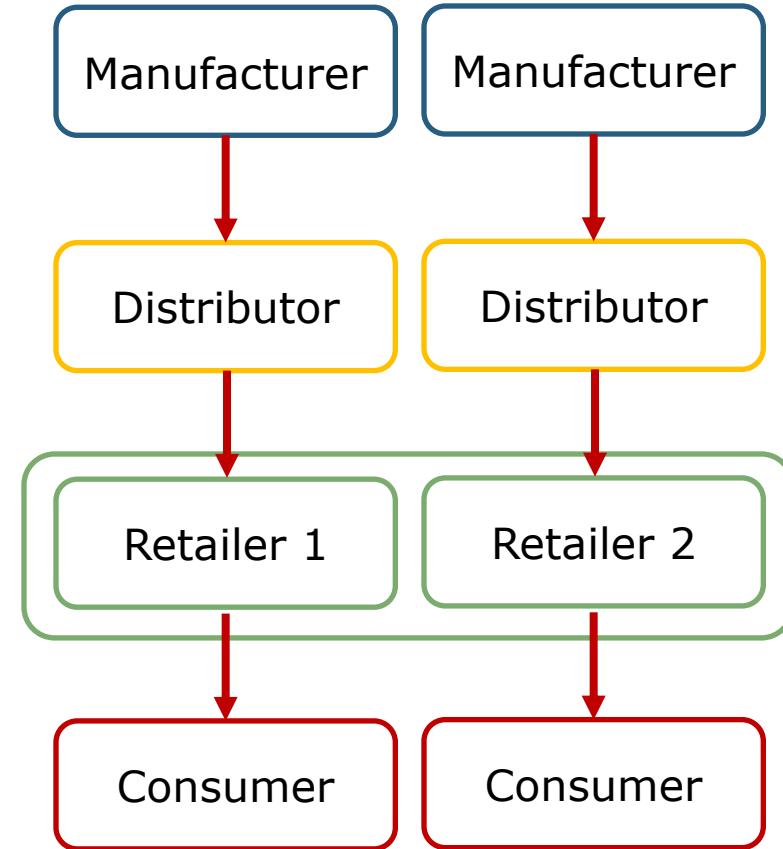
Every entity has its own goals

## Vertical



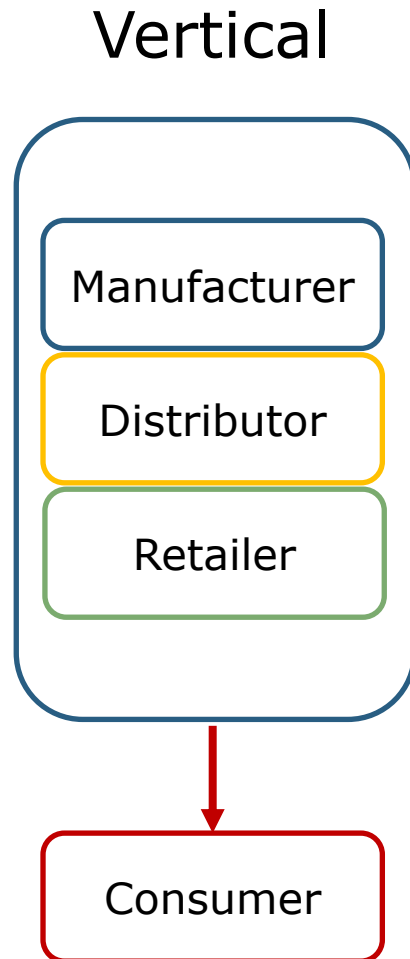
Entities act as unified system

## Horizontal



2+ firms join at one level of the supply chain

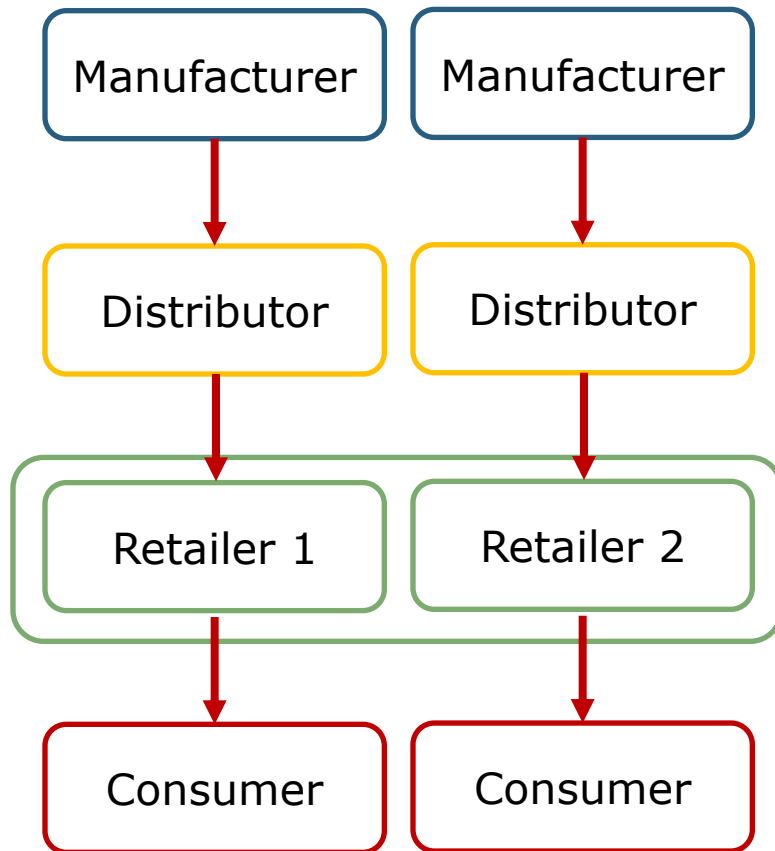
# Vertical channel



- **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
  - Tesla manufactures, produces and sells products

# Horizontal channel

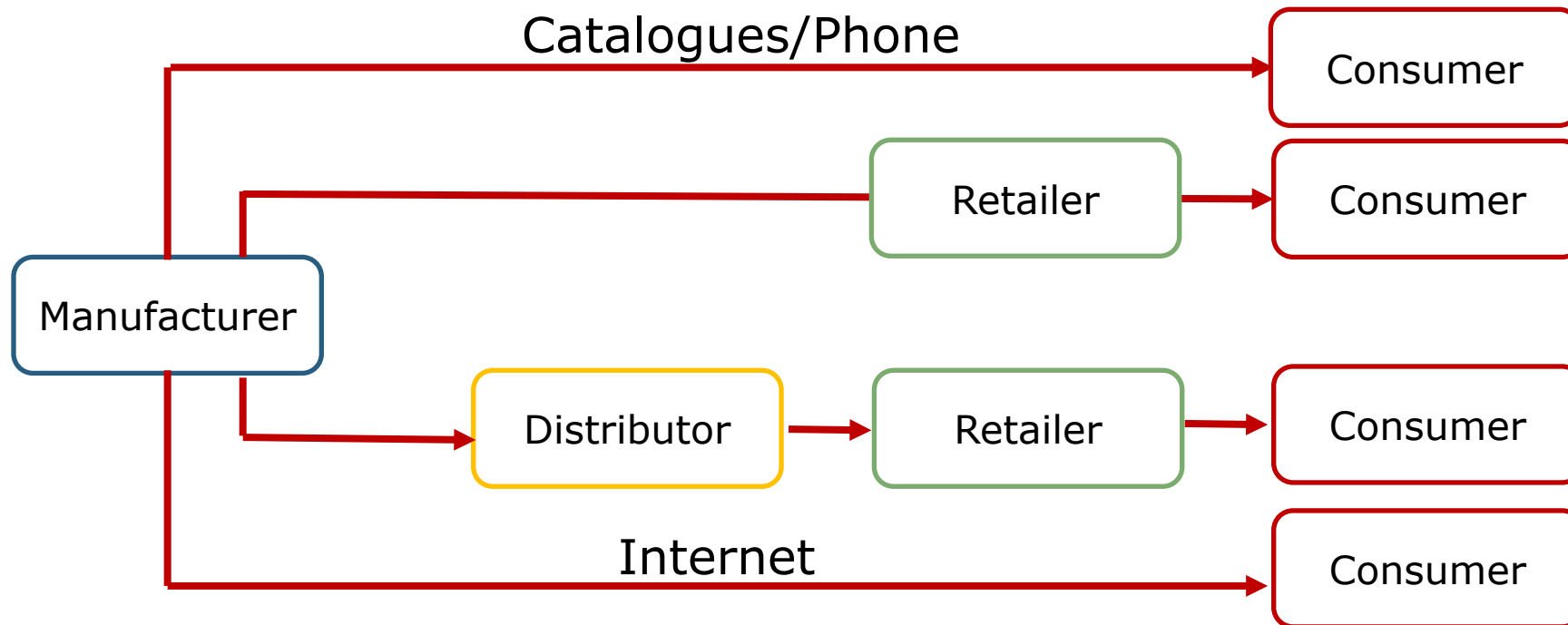
## Horizontal



- 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

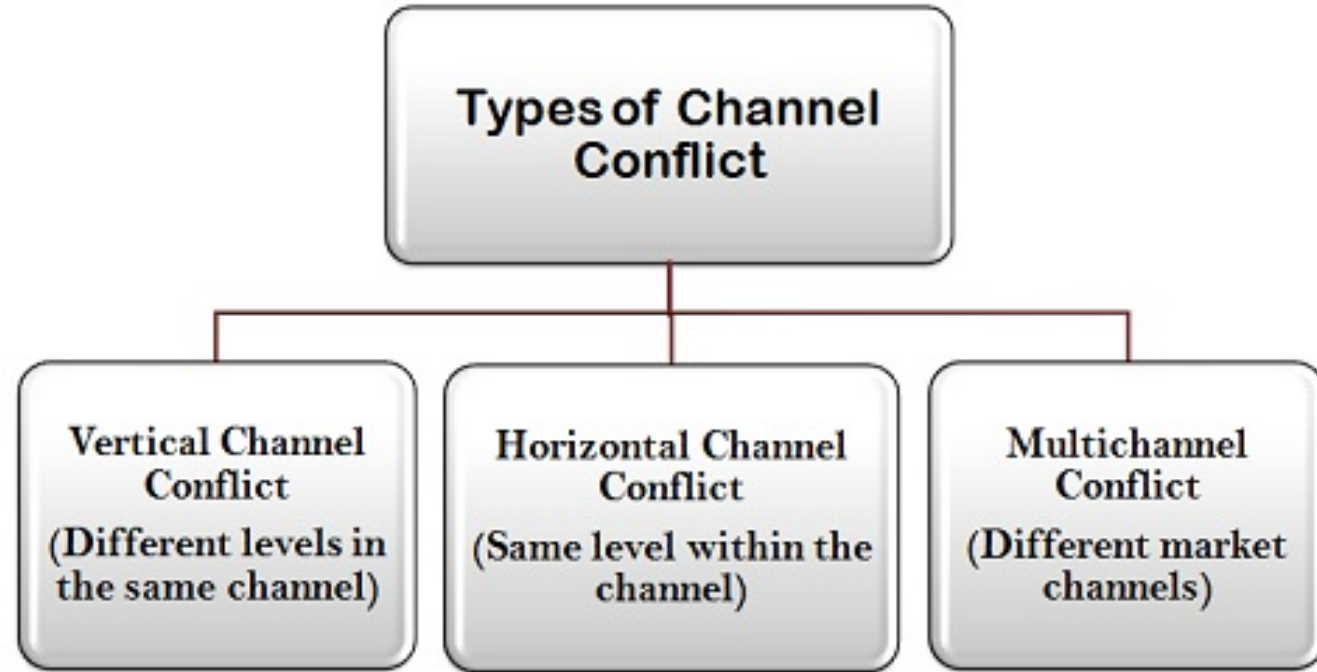
- Staples, Macy's, etc.



- 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.

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**