Chapter 15

Supply Chain and Channel Management
Today’s concepts

• Understand the importance of supply chain and marketing channels
• Understand the difference between different types 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!
Amazon Ships 2.5 Billion Packages A Year
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 1/5** and get **packages out the door more quickly**
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)
Supply chain vs marketing channels

- **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)

Some of the activities include:
• Making the actual product
• Research & Development
• Supply chain management (efficiency, savings)

Make

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)

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)

1) distribution center $\rightarrow$ 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

Sell to consumers
Sell to other businesses
Streamline the number of transactions an organization must make
Marketing channels add value

• **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
Recap

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

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
Direct vs indirect marketing channel

• 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
Direct vs indirect marketing channel

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

- Manufacturer
- Distributor
- Retailer
- Consumer

Every entity has its own goals

Vertical

- Manufacturer
- Distributor
- Retailer
- Consumer

Entities act as unified system

Horizontal

- Manufacturer
- Distributor
- Retailer
- Consumer
- Manufacturer
- Distributor
- Retailer 1
- Consumer
- Manufacturer
- Distributor
- Retailer 2
- Consumer

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
- 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 companies use.

- Staples, Macy’s, etc.

Diagram:

- **Manufacturer**
  - **Distributor**
    - **Retailer**
      - **Internet**
        - **Consumer**
  - **Catalogues/Phone**
    - **Retailer**
      - **Consumer**

**Multichannel**
Managing supply chain

• 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)
  - 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.

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

- **Multichannel Conflict** (Different market channels)
  - 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