

MKTG
Principles Of Marketing
Twelfth Edition



LAMB • HAIR • McDANIEL
MKTG¹²
PRINCIPLES OF MARKETING

Chapter 13
Supply Chain
Management and
Marketing Channels

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LEARNING OUTCOMES (1 of 2)

- 13-1 Define the terms supply chain and supply chain management and discuss the benefits of supply chain management
- 13-2 Discuss the concepts of internal and external supply chain integration and explain why each of these types of integration is important
- 13-3 Identify the eight key processes of excellent supply chain management and discuss how each of these processes affects the end customer
- 13-4 Understand the importance of sustainable supply chain management to modern business operations



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LEARNING OUTCOMES (2 of 2)

- 13-5 Discuss how new technology and emerging trends are impacting the practice of supply chain management.
- 13-6 Explain what marketing channels and channel intermediaries are and describe their functions and activities
- 13-7 Describe common channel structures and strategies and the factors that influence their choice
- 13-8 Discuss omnichannel and multichannel marketing in both B-to-B and B-to-C structures and explain why these concepts are important



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Learning Objective 1: Supply Chains and Supply Chain Management



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Supply Chain and Supply Chain Management (1 of 2)

Supply chain

- Includes all of the companies involved in the upstream and downstream flow of products, services, finances, and information, extending from initial suppliers (the point of origin) to the ultimate customer (the point of consumption).



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Supply Chain and Supply Chain Management (2 of 2)

Supply chain management

- Coordinates and integrate all of the activities performed by supply chain members into a seamless process, from the source to the point of consumption, resulting in enhanced customer and economic value.

Supply chain agility

- Operational strategy focused on creating inventory velocity and operational flexibility simultaneously in the supply chain.



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Benefits of Effective Supply Chain Management

- As well-managed supply chains are able to provide better value to customers with only marginal incremental expenditure on company assets, best-in-class supply chain companies, such as air conditioner manufacturer Lennox International, are becoming significantly more valuable investors.
- Provides better value to customers with only marginal incremental expenditure on company assets.



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Learning Objective 2: Supply Chain Integration



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Supply Chain Orientation and Supply Chain Integration

Supply chain orientation

- *System of management practices that are consistent with a “systems thinking” approach*

Supply chain integration

- *Occurs when multiple firms or business functions in a supply chain coordinate their activities and processes so that they are seamlessly linked to one another*



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Characteristics of Leading Supply Chain-Oriented Firms

- Credibility
- Benevolence
- Benevolence
- Availability of support from top managers
- Efficiency in conducting and directing supply chain activity



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Demand-Supply Integration (DSI)

- Type of internal supply chain integration
- Integrates the supply-management and demand-generating functions of an organization
- Enhances customer satisfaction
- Under the DSI philosophy, those functional areas in a company charged with creating customer demand communicate frequently and are synchronized with the parts of the business charged with fulfilling the created demand



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External Supply Chain Integration (1 of 3)

- Relationship integration
 - Ability of two or more companies to develop social connections that serve to guide their interactions when working together
- Measurement integration
 - Reflects the idea that performance assessments be transparent, measurable, and should assess the performance of the supply chain as a whole
 - Holds each individual firm or business unit accountable for meeting its own goals



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External Supply Chain Integration (2 of 3)

- Technology and planning integration
 - Creation and maintenance of information technology systems that connect managers across and through the firms in the supply chain
- Material and service supplier integration
 - Requires firms to link seamlessly to those outsiders that provide goods and services to them
 - To enable the firms to streamline processes and provide quality customer experiences



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External Supply Chain Integration (3 of 3)

- Customer integration
 - Enables firms to offer long-lasting, distinctive, value-added offerings to customers who represent the greatest value to the firm or supply chain
- Organizational success in achieving both the internal and external types of integration is very important
- Integration involves a balance between barriers and enablers



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Learning Objective 3: The Key Processes of Supply Chain Management



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Key Business Processes in Supply Chain Management

- Customer relationship management (CRM)
- Customer service management
- Demand management
- Order fulfillment
- Manufacturing flow management
- Supplier relationship management
- Product development and commercialization
- Returns management



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Customer Relationship Management

- Allows companies to prioritize their marketing focus on different customer groups based on each group's long-term value to the company or supply chain.
- The CRM process includes customer segmentation by value and subsequent generation of customer loyalty for the most attractive segments.



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Customer Service Management

- Presents a multi-company, unified response system to customers when complaints, concerns, questions, or comments are voiced
- Has strong positive impact on revenues when executed properly
- Enhanced by the use of customer care software



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Demand Management

- Aligns supply and demand throughout the supply chain by
 - foreseeing customer requirements at each level.
 - creating customer-focused plans of action prior to actual customer purchasing behavior.
- Allows customer satisfaction through greater flexibility in manufacturing, marketing, and sales programs
 - Sales and operations planning**



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Order Fulfillment

- Highly integrated process
 - Requires people from multiple companies and functions to gather and coordinate to create customer satisfaction at a given place and time
 - Reduces **order cycle time** when at its best
 - Involves understanding and integrating the firm's internal capabilities with customer needs and matching these together
 - For allowing supply chain to maximize profits and minimize costs and waste



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Manufacturing Flow Management

- Ensures that firms in the supply chain have the needed resources to
 - manufacture with flexibility.
 - move products through a production process.
- Intends to improve overall manufacturing output by leveraging the capabilities held by multiple members of the supply chain
- Lean or agile strategy is selected depending on the product.



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Supplier Relationship Management

- Supports manufacturing flow by identifying and maintaining relationships with highly valued suppliers
- Highly dependent on supplier relationships for flexibility
- Provides structural support for developing and maintaining relationships with suppliers



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Product Development and Commercialization

- Group of activities that facilitates the joint development and marketing of new offerings among a group of supply chain partner firms.
- Capability for developing and introducing new offerings quickly is key for competitive success versus rival firms.



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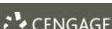
Returns Management

- Enables firms to manage volumes of returned product efficiently
- Minimizes returns-related costs and maximizes the value of the returned assets to the firms in the supply chain
- Handling returns quickly creates a positive image
- Gives the company an additional opportunity to please the customer



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Learning Objective 4: Sustainable Supply Chain Management

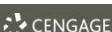


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Sustainable Supply Chain Management

- Embraces the need for optimizing social and environmental costs in addition to financial costs
- The organization both better addresses current business needs and develops long-term initiatives that allow it to mitigate risks and avail itself of future opportunities in ways that preserve resources for future generations and ensure long-term viability.

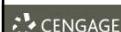
Learning Objective 5: Trends in Supply Chain Management



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Outsourcing Logistics Functions

- **Outsourcing:** Manufacturer's or supplier's use of independent third party to manage an entire function of the logistics system
 - Third party can be **third-party logistics company (3PL)** or **fourth-party logistics company (4PL)**
 - Reduces inventories
 - Locates stock at fewer plants and distribution centers
 - Provides same or better levels of service
- Many firms use **offshoring** and **nearshoring**



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Public-Private Partnerships (PPPs)

- Critical to the satisfaction of both company and societal interests
- Provide a mechanism by which very large-scale problems or opportunities can be addressed
- Factor into the solution of future national and global supply chain problems
- The project cost more than \$4 billion, shared between tax-payers and businesses in the two cities



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Electronic Distribution

- Includes any kind of product or service that can be distributed electronically
 - Through traditional forms (fiber-optic cable) or through satellite transmission of electronic signals
- **Three-dimensional printing (3DP)**
 - Creation of three-dimensional objects via an additive manufacturing (printing) technology that layers raw material into desired shapes



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Benefits of 3DP

- Smaller and localized supply chains will become the norm.
- Small manufacturers will produce many more custom products than before over short lead times.
- 3DP removes the need for transportation of goods to distribution centers and retailers
- 3DP can help create a positive impact on businesses' carbon footprints and the environment at large.



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Global Supply Chain Management

- Reasons for globalizing a company's supply chain are:
 - Increasing demand for imported products worldwide
 - Cheap labor advantages
 - Removal of trade barriers/tariffs
 - Exposure to new technologies
 - Creating competition to domestic suppliers
 - Building brand equity



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Supply Chain Analytics and Technology

- **Supply chain analytics** can interpret **big data** and have great potential for improving supply chain operations.
- Advanced technology enabled by big data helps improve supply chain operations.
- **Cloud computing** is used to extract useful data.
- Sensory equipment that connects physical objects to decision-making analytics via the Internet is beginning to emerge.



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Learning Objective 6: Marketing Channels and Channel Intermediaries



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Marketing Channels (1 of 3)

- A marketing channel can be viewed as a canal or pipeline through which products, their ownership, communication, financing and payment, and accompanying risk flow to the consumer.
- Business structure of interdependent organizations that reaches from the point of production to the consumer and facilitates the downstream physical movement of goods through the supply chain.



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Marketing Channels (2 of 3)

- Provide a route for company products and services to flow to the customer
- Facilitate distribution via channel members
- **Channel members**
 - Negotiate with one another
 - Buy and sell products
 - Facilitate the change of ownership between buyer and seller while moving the product from the manufacturer to the final consumer



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Marketing Channels (3 of 3)

- Channel members facilitate distribution by
 - providing specialization and division of labor.
 - overcoming discrepancies.
 - providing contact efficiencies.
- Create time, place, form, and exchange utility



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How Marketing Channels Work

- **Form utility**
 - *Elements of the composition and appearance of a product that make it desirable*
- **Time utility**
 - *Increase in customer satisfaction gained by making a good or service available at the appropriate time*
- **Place utility**
 - *Usefulness of a good or service as a function of the location at which it is made available*
- **Exchange utility**
 - *Increased value of a product that is created as its ownership is transferred*



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Functions and Activities of Channel Intermediaries (1 of 2)

- **Merchant wholesaler**
 - Facilitate the movement of products and services from the manufacturer to producers, resellers, governments, institutions, and retailers
 - Takes title to goods, stores them, and later ships them
- **Agents and brokers**
 - Sales of products downstream by representing the interests of retailers, wholesalers, and manufacturers to potential customers
 - Do not take title to a product
 - Get a fee or commission based on sales volume



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Functions and Activities of Channel Intermediaries (2 of 2)

- Types and number of intermediaries the producer should use are determined by:
 - Product characteristics
 - Buyer considerations
 - Market characteristics



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Retailers

- Firms in the channel that sell directly to customers as their primary function
- Simplify distribution by
 - reducing the number of transactions required by consumers.
 - making an assortment of goods available in one location.

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Channel Functions Performed by Intermediaries

- Transactional functions
 - *Contacting and communicating with prospective buyers to explain the features, advantages, and benefits*
- Logistical functions
 - *Transportation and storage of assets and their sorting, accumulation, consolidation, and/or allocation of assets*
- Facilitating functions
 - *Research and financing*

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Exhibit 13.1 How Marketing Channels Reduce the Number of Required Transactions

The diagram illustrates the reduction in required transactions through the use of a marketing channel intermediary. In the top section, labeled 'Without an intermediary', 5 producers (Samsung, Asus, Microsoft, Apple, Lenovo) are connected to 4 consumers (Consumer 1, 2, 3, 4) by a dense web of lines representing individual transactions. The text below states: 'Without an intermediary: 5 producers x 4 consumers = 20 transactions'. In the bottom section, labeled 'With an intermediary', the 5 producers are connected to a single intermediary (Best Buy) instead. Best Buy then connects to the 4 consumers. The text below states: 'With an intermediary: 5 producers + 4 consumers = 9 transactions'. This visualizes how the intermediary acts as a hub, reducing the total number of transactions required.

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Learning Objective 7: Channel Structures

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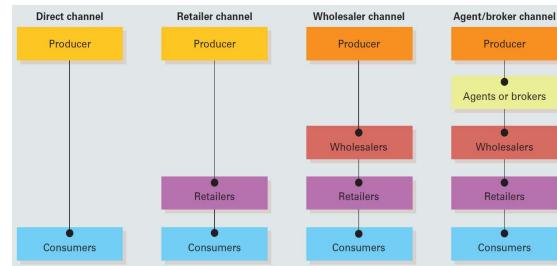
Channel Structures

- **Direct channel** is used to sell products directly to consumers. No intermediaries are used.
 - Examples include telemarketing, catalog shopping, online shopping, and shop-at-home television networks.
- At the other end of the spectrum, an agent/broker channel may be used in markets with small manufacturers/retailers who lack the resources to find each other. The agents or brokers bring the manufacturers and wholesalers together for negotiations, but they do not take title to merchandise.
- Most consumer products are sold through distribution channels similar to the retailer channel and the wholesaler channel.



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Exhibit 13.2 Marketing Channels for Consumer Products



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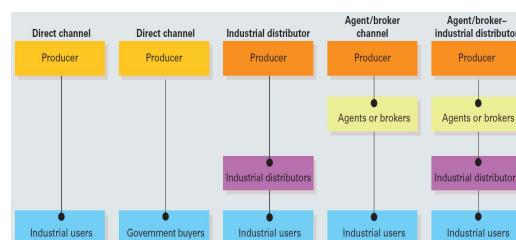
Channels for Business and Industrial Products

- Direct channels are typical in business and industrial markets.
- Companies selling standardized items of moderate or low value often rely on industrial distributors.
- Small manufacturers cannot afford to employ their own sales force.
- Many manufacturers and consumers are bypassing distributors and going direct, often via the Internet.



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Exhibit 13.3 Channels for Business and Industrial Products



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Alternative Channel Arrangements (1 of 2)

Dual channels

- *Use of two or more channels to distribute the same product to target markets*

Nontraditional channels

- *Non-physical channels that facilitate the unique market access of products and services*

Strategic channel alliances

- *Cooperative agreement between business firms to use the other's already established distribution channel*



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Alternative Channel Arrangements (2 of 2)

Gray marketing channels

- *Unintended secondary channel that often flows illegally obtained or counterfeit product toward customers*

Reverse channels

- *Enable customers to return products or components for reuse or remanufacturing*

Drop and shop

- *System used by retailers that allows customers to bring used products for return or donation at the entrance of the store*



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Digital Channels

- Pathways for moving product and information toward customers such that they can be sent and/or received with electronic devices, such as computers, smartphones, tablets, or video game consoles
- **M-commerce**
 - Ability to conduct commerce using a mobile device for buying or selling goods or services
 - Enables consumers using mobile devices to connect to the Internet and shop



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Factors Affecting Channel Choice (1 of 2)

Market factors

- Customer profiles
- Consumer or industrial customer
- Size of market
- Geographic location

Product factors

- Complexity
- Price
- Customization
- Standardization
- Life cycle



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Factors Affecting Channel Choice (2 of 2)

Producer factors

- Producer resources
- Number of product lines
- Desire for channel control



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Levels of Distribution Intensity

Intensive distribution

- *Aims at having a product available in every outlet where target customers might want to buy it*

Selective distribution

- *Achieved by screening dealers to eliminate all but a few in any single area*

Exclusive distribution

- *Entails one or only or a few dealers within a given area*



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Emerging Distribution Structures

- Rapid changes in technology and communication resulting in new, experimental distribution methods and channel structures
- Structures that involve renting items that are only sold to end consumers



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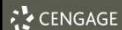
Learning Objective 8: Omnichannel Versus Multichannel Marketing



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Multichannel Marketing

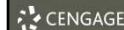
- Many companies have begun to employ a multichannel marketing strategy, whereby customers are offered information, goods, services, and/or support through one or more synchronized channels.
- More engaged during the purchase process
- The exception is when customers are buying simple, utilitarian products that are well known and intended for frequent use.
- Create redundancy and complexity in the firm's distribution system.



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Omnichannel Marketing

- Helps unify retail interfaces so that all customers receive equal and efficient service
- Helps retailers merge their distribution channels
 - By making their inventory data available to customers in real time
- Creates greater customer control over the shopping experience, leading to greater satisfaction and loyalty



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Key Terms (1 of 6)

- Supply chain
- Supply chain management
- Supply chain agility
- Supply chain orientation
- Supply chain integration
- Demand-supply integration (DSI)
- Business processes
- Customer relationship management (CRM) process
- Customer service management process



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Key Terms (2 of 6)

- Demand management process
- Sales and operations planning (S&OP)
- Order fulfillment process
- Order cycle time
- Manufacturing flow management process
- Supplier relationship management process
- Product development and commercialization process
- Returns management process



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Key Terms (3 of 6)

- Sustainable supply chain management
- Outsourcing (contract logistics)
- Third-party logistics company (3PL)
- Fourth-party logistics company (4PL or logistics integrator)
- Offshoring
- Nearshoring
- Public-private partnerships (PPPs)
- Electronic distribution



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Key Terms (4 of 6)

- Three-dimensional printing (3DP)
- Big data
- Cloud computing
- Supply chain analytics
- Marketing channel (channel of distribution)
- Channel members
- Form utility
- Time utility
- Place utility
- Exchange utility



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Key Terms (5 of 6)

- Merchant wholesaler
- Agents and brokers
- Retailer
- Direct channel
- Dual distribution (multiple distribution)
- Nontraditional channels
- Strategic channel alliance
- Gray marketing channels
- Reverse channels



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Key Terms (6 of 6)

- Drop and shop
- Digital channels
- M-commerce
- Intensive distribution
- Selective distribution
- Exclusive distribution



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