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BUSINESS MARKETING
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TOPIC 4: CHANNEL STRATEGY AND MARKETING LOGISTIC

COURSE LEARNING OUTCOME:

CLO 1: Describe business marketing, business buying behaviour and business marketing mix in planning marketing strategy.

CLO 3: Identify the marketing mix strategies complying with the conditions of business market.
1. CHANNEL STRATEGY / MARKETING CHANNEL

2. MARKETING LOGISTIC
Also call as **distribution channel** or **trade channel**.

Define as a set of interdependent organizations that make a product or service available to customer for use.

The decisions are long term decisions.

It very difficult to change the decisions on distribution channel, rather in pricing and promotion.
MARKETING LOGISTICS

- Also call as physical distribution.

- consist of delivering the completed products to customers and channel intermediaries.

- To assist in performing the tasks of storing and moving their goods and services, the business firms have to engage the services of warehouses and transportation companies.
<table>
<thead>
<tr>
<th>Channel Strategy and Marketing Logistic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>C2 - Describe</strong></td>
</tr>
<tr>
<td><strong>A4 - Identify</strong></td>
</tr>
<tr>
<td><strong>PLO 1 - Knowledge</strong></td>
</tr>
<tr>
<td><strong>PLO 8 - Professionalism, Ethics and Moral</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>The factors affecting nature of business channel.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>The alternative structure of business channel</td>
</tr>
<tr>
<td>3</td>
<td>The types of business middlemen or intermediaries.</td>
</tr>
<tr>
<td>4</td>
<td>The market logistics/physical distribution.</td>
</tr>
</tbody>
</table>
A. LESSON LEARNING OUTCOME

THE FACTORS AFFECTING THE NATURE OF BUSINESS CHANNEL.

a. Geographical distribution
b. Channel size
c. Characteristics of intermediaries
d. Mixed system
FACTORS AFFECTING THE NATURE OF BUSINESS CHANNELS:

1. Geographical Distribution
2. Channel Size
3. Characteristics of Intermediaries.
4. Mixed System
1. Geographical Distribution

- Business intermediaries (such as distributors or dealers) are highly concentrated geographically.
- They are found where business market exits, in large cities or towns with business estates.
- Cth: Johor Bharu - Pasir Gudang, Selangor - Shah Alam, Kota Bharu – Pengkalan Chepa, Pulau Pinang etc.
- are some of the cities that have large number of business organizations.
2. Channel Size

- Business channel are short and involve a type of intermediary for selling and handling the products.
- Sometimes the channels are direct from the manufacturers to the customers, without intermediaries.
- The reason for the shorter channels – coz the organizational buyers expect product availability, technical expertise, and serving capabilities.
- These expectations have to be fulfilled by the intermediary (distributor or dealer) and the manufacturer.
3. Characteristics of Intermediaries.

- Business intermediaries are often technically qualified.
- Have close relationship with the industrial organizations.
- Business marketers use industrial distributors, manufacturers’ representatives, or brokers to reach customers.
4. Mixed System

- Some business marketers use a mixture of direct and indirect channel in order to meet the requirements of different market segments, or when the company resource constraints.
- The business firm may use its own sales force for a large-volume customers, and independent distributors or dealers to cover small-scale organisations.
(a) Consumer marketing channels

- **0-level**: Manufacturer → Consumer
- **1-level**: Manufacturer → Retailer → Consumer
- **2-level**: Manufacturer → Wholesaler → Retailer → Consumer
- **3-level**: Manufacturer → Wholesaler → Jobber → Retailer → Consumer
(b) Industrial marketing channels

0-level

Manufacturer

Industrial customer

1-level

Manufacturer

Industrial distributors

Industrial customer

2-level

Manufacturer

Manufacturer's representative

Industrial customer

3-level

Manufacturer

Manufacturer's sales branch

Industrial customer
Some firms, due to resource constraints, have agents (or manufacturers’ representatives) to serve the market segments consisting of geographical territories.

They may use this intermediaries:

- values-added Resellers,
- brokers,
- Commission Merchants,
- Direct Marketing (telemarketing, Direct mail and Online marketing)
B. LESSON LERNING OUTCOME

THE ALTERNATIVE STRUCTURE OF BUSINESS CHANNEL

a. Direct channel
b. Indirect channel
THE ALTERNATIVE STRUCTURE OF BUSINESS CHANNEL
Alternative Structures of Industrial Channel

- Business channel can be structured in various ways.

- Some channel structures are:
  
  i) direct
  
  ii) indirect
The manufactures perform all the functions or the tasks necessary to create sales and to deliver the products to industrial customers.

These tasks include: contacting potential customers, negotiating, communicating, selling, financing, product storage, transportation, and serving.

The examples: i) direct sales through the company’s sales force, and ii) direct marketing through direct mail, telemarketing, iii) electronic business through computer (i.e. online marketing).
The direct distribution (or direct channels) approach is viable when:

(a) The value of each transaction is large,
(b) The selling includes extensive technical and commercial negotiations at various levels, including top management,
(c) the buying process is lengthy, and
(d) The business buyers insist on buying directly from the manufacturers.
II. INDIRECT CHANNEL STRUCTURES

- The manufacturer and the intermediaries share the tasks between them.

Examples of the types of intermediaries in indirect channels are:
- a. Independent dealers or distributors,
- b. manufacturer’s representatives (or agents),
- c. commission merchants,
- d. value-added resellers,
- e. brokers.
An indirect distribution (or indirect channels) approach is appropriate when:

(a) The value of each transaction or sales are low,
(b) The manufacturer has limited resources,
(c) The business buyers are widely dispersed, and
(d) The business buyers purchase many product items in one transaction.
The example of the products where indirect distribution are used include:

(a) Industrial chemicals,
(b) Construction materials,
(c) Electrical wiring materials and supplies,
(d) General industrial machinery,
(e) Iron,
(f) Steel products,
(g) And so on.
1. Why Business Marketers use intermediaries?
2. Why Business Customers Buy from intermediaries (Distributors)?
1. Why Business Marketers use intermediaries?

- Services Performed by Middlemen.
  - a. Buying
  - b. Promotion and selling
  - c. Assorting
  - d. Financing
  - e. Financing
  - f. Warehousing
  - g. Grading
  - h. Transportation
  - i. Information
  - j. Risk-taking
  - k. Technical Service
2. Why Business Customers Buy from intermediaries (Distributors)?

- A number of studies conducted on this subject indicate the following reasons:
  a. Dependable Delivery
  b. Information
  c. Variety
  d. Liberal Credit
C. LESSON LEARNED OUTCOME

THE TYPES OF BUSINESS MIDDLEMEN OR INTERMEDIARIES.

a. Manufacturer’s representative
b. Industrial distributors or dealers.
c. Brokers
d. Commission merchant.
e. Value-added resellers (VARs)
THE TYPES OF BUSINESS MIDDLEMEN OR INTERMEDIARIES
Middlemen are classified on the basis of the number of functions they perform.

- A *full-function intermediary* – is the one who performs all or most of the distribution functions. (called as industrial distributors)

- A *part function intermediary* – are manufacturers’ representatives (agents), brokers, commission merchants, and value-added resellers (VARs).
1. **INDUSTRIAL DISTRIBUTORS (OR DEALERS)**
   - Most important intermediary in distribution channel.
   - Typically, industrial distributors are small and independent business firms serving narrow geographic market.
   - They perform a variety of functions or tasks. (called as full-function middlemen).
   - Responsibilities or functions of ID:
     a. buying, b. storage or warehousing, c. promotion
d. selling, e. offering credit, f. transporting or
g. delivering of products, h. providing information.
The main functions are selling and ensuring customer service.
Three Main/major Categories of ID:

1. The general-line distributors
   - carry a wide variety of generalized industrial products that are needed by the industrial buyers.

2. The specialised distributors,
   - focus on a narrow range of related products such as valves and fittings, cutting-tools, hydraulic equipments and components.
   - are growing in size and numbers in recent years due to a trend toward specialization.
3. *The combination house,*
- as they sell some products directly to industrial/business customers and
- some to other (retailers or dealers), who in turn sell to final consumers.
- In other words, they sell to both consumer and business markets.
2. MANUFACTURERS’ REPRESENTATIVES

- They are also called agents or sales agents or manufacturers’.
- Their main function:
  a. to promote sales
  b. secure orders.
  c. fulfill the market information.
- They **do not** buy, store, or finance the transactions.
- They are paid a commission on sales which varies from industry to industry and also according to tasks involved in the selling job.
They (MR) are generally needed by small and medium sized business firms.

These firms find it economical to have independent reps, who are paid commission only when the orders are generated.

The are no other selling cost.

These agents have:
- good product knowledge,
- sound understanding of the markets cover by them,
- excellent contacts with the industrial buyers

They represent a number of manufacturers whose products complement one another but are not competitive.
The business marketer may use their own sales force in high potential industrial markets to support the selling expenses of salaries, parks, travelling, lodging, and boarding.

But in territories with low market potential, they find it economical to use the independent reps. Or agent
3. BROKERS

- These middlemen bring together buyers and sellers by providing information on what is available and required.
- They may represent either the buyer or the seller.
- This relationship is a short-term one.
- Their function is to find potential buyers, negotiate, and complete the sale.
- Brokers do not buy or handle products.
- They are paid on commission basis.
- They deal with standard products or raw materials, and
- Their role is vital when information on market and products is not available completely.
In the computer and other industries, a VAR (value-added reseller) is a company that takes an existing product, adds its own "value" usually in the form of a specific application for the product (for example, a special computer application), and resells it as a new product or "package." For example, a VAR might take an operating system such as IBM's OS/390 with UNIX services and, adding its own proprietary UNIX application designed for architects, resell the package to architectural firms. Depending on sales and installation requirements, the VAR could choose whether or not to identify OS/390 as part of the package.

Also see OEM (original equipment manufacturer), a company that includes hardware components from other companies in its own product.
MARKETING LOGISTICS

- Also call as Physical distribution.

- Logistics system involved two (2) major product movement:
  
  i) Physical supply
  
  ii) Physical distribution
PHYSICAL DISTRIBUTION STRATEGY
1) Explain physical distribution strategy.
MARKETING LOGISTICS

- Also call as Physical distribution.

- Logistics system involved two (2) major product movement:

  i) Physical supply

  ii) Physical distribution
PHYSICAL SUPPLY

DEFINITION:

- Consisting of supply of raw material, components, and supplies to the manufacturing process.

- This is a part of materials management or purchase function.
Fig. 1 Business Logistics System

Physical supply

Raw materials
Components
Supplies

Industrial manufacturer

Material storage

Manufacturing

Finished good storage

Physical distribution

Industrial customer
Industrial distributors
DEFINITION:

- Consisting of delivering the completed (or finished) product to customers and intermediaries.

- It is a part of marketing management and is also called as marketing logistics.
FLOW OF PHYSICAL DISTRIBUTION STRATEGY
RESEARCH

- CARRIED OUT ON MORE THAN 1000 COMPANIES BY DONALD BOWERSON,

- REPORT – THE COMPANIES WITH SUPERIORS LOGISTICS PERFORMANCE GAINED HIGHER PERCENTAGE OF CUSTOMER LOYALTY.

- It mean that, an efficient use of logistics has a significant impact on customer service.
METHOD

JUST-IN-TIME (JIT) SYSTEM

- The system expects the suppliers to deliver the products at the precise time and in the exact quantity needed by the customer.
D. LESSON LEARNING OUTCOME

THE MARKETING LOGISTICS/PHYSICAL DISTRIBUTION.

a. Transportation
b. Warehousing
c. Inventory control
d. Packaging
e. Material Handling
f. Order Processing
g. Communication.
h. Factory and Warehouse Locations.
i. Customer Service.
THE

PHYSICAL DISTRIBUTION
FIG 2 : TASKS OF PHYSICAL DISTRIBUTION

A. TRANSPORTATION
B. WAREHOUSING
C. INVENTORY CONTROL
D. PACKAGING
E. MATERIAL HANDLING
F. ORDER PROCESSING
G. COMMUNICATION
H. FACTORY AND WAREHOUSE LOCATIONS
I. CUSTOMER SERVICE
A. TRANSPORTATION

It is the means of moving goods from production unit to customers.

It is the most important cost area in physical distribution.
Sea+Air & Sea-rail multi-modal transportation service, It is cheaper than air and faster than ocean as we use cost saving but fast vessels and connect reliable airlines to final destinalional. We had set record in Dubai airport of using just 5 hours to transfer sea+air cargo from vessel on to flights bound for Africa,
B. WAREHOUSING

- It provides storage space for products which are made available to customers when needed.

- It can improve customer service and reduce transportation cost.
WAREHOUSING
C. INVENTORY CONTROL

- Inventory is used to ensure the products are available to customers in the right product-mix, at the right location, and at the right time.
D. PACKAGING

- It provides protection to products and maintains product identity when products arrive at the marketplace.
PACKAGING TYPES
E. MATERIAL HANDLING

- It increases speed and minimises costs of order-picking, moving products between storage and transport carriers, loading and unloading operations.
FLOW OF MATERIAL HANDLING

- Manufacturing
- Picking
- Packing
- Shipping

- Item tag → ePedigree
- Case tag → ePedigree
- Aggregation → ePedigree
- Compare to “plan”
- Flag exceptions
- Trigger quarantine
- Flag for audit

- Pallet tag → ePedigree
- Aggregation → ePedigree
- Compare to “plan”
- Flag exceptions
- Trigger quarantine
- Flag for audit

- Shipment → ePedigree
- Ship confirm
F. ORDER PROCESSING

- It starts the physical distribution process and directs various activities which are necessary to deliver the products to customers.
- Speed and accuracy of order processing affect customer service and costs.
ORDER PROCESSING

“Where is that order in manufacturing?”

“How do I prevent shipment errors?”

“How do I control inventory in the field?”

“How can I equip my systems to track individually serialized items and update pedigree?”

“How can I control my assets?”

Shipping
Packing
Picking
Manufacturing
Information is exchanged between the company’s physical distribution or marketing logistics department and its customers.

It assists in performing various tasks.
Right location of manufacturing plants and warehouses (or godowns) increase customer service and reduce transportation (or freight) costs.
I. CUSTOMER SERVICE

- The results of physical distribution activities is customer.

- It creates customer value (or benefits) that has impact on the company’s market share, total cost, and profitability.
TASKS OF PHYSICAL DISTRIBUTION

1. TRANSPORTATION
2. WAREHOUSING
3. INVENTORY CONTROL
4. PACKAGING
5. MATERIAL HANDLING
6. ORDER PROCESSING
7. COMMUNICATION
8. FACTORY AND WAREHOUSE LOCATIONS
9. CUSTOMER SERVICE
Tutorial exercise 2
TUTORIAL EXERCISE 2

QUESTIONS:

1. Describe with two (2) example the business products and markets that use (a) direct channel of distributions, and (b) indirect channel of distribution.

2. What are the different functions carried out generally by the industrial distributors and manufacturers’ representatives.

3. If you are the head of marketing of an business marketing firm and would like to develop new marketing channels for new products, what the alternatives structure and the types of business middlemen/intermediaries that your firm choose to distribute your new products.
QUIZ 3;
CHANNEL STRATEGY
QUIZ 3

1. REFER ATTACHMENT.
REFERENCE S BOOK

Dari Anas bin Malik r.a., Nabi SAW bersabda yang bermaksud:

“Wahai anakku! Apabila kamu ke dalam rumah berikan salam. Kamu dan ahli rumah akan mendapat keberkatan.”

(Riwayat al-Tirmizi)

Ucapan salam adalah satu doa untuk kesejahteraan sesama Muslim. Silaturahim sesama kita juga akan bertambah kukuh.
THANK YOU