Toys R Us

a) Founded
World's largest toy chain
AND, a new type of retail outlet!
Founded in 1978, Toy R Us
averaged a 30% growth rate
for years!
b) As we would expect, this
attracted the attention of
competition...
Target and Wal-Mart!!
...and
Market share fell from 25% to
17%
c) Wal-Mart overtook Toys R
Us to become the largest
volume seller of toys in the
U.S.
d) Toys R Us reacted:
It spent $300 million to
renovate stores and increase
its assortment of toys from
10,000 to 17,000 items while
changing its SUPPLY CHAIN
to reduce inventory!
This meant smaller profits for
the toy manufacturers and
less sales outside of the
holiday seasons
To boost profits,
suppliers reacted to two
ways:
1. Some reduced the
flow of "hot" toys to
discounters like Wal-
Mart
2. Some gave Toys R
Us exclusive launches
of select toys
Channel of Distribution

DEFINITION
- The complete sequence of marketing organizations involved in bringing a product from the producer to the customer;
- a system of interdependency within a set of organizations;
- a system that facilitates the exchange process.

What a Channel Involves

A. Conventional channel:
- loosely aligned, autonomous organizations that carry out a trade relationship
B. Vertical marketing systems:
- tightly organized systems coordinated by ownership of one member, legal agreements, or the power of one member
C. Facilitators:
- provide limited services to channel members
D. Intermediaries (or middlemen):
- specialize in distribution;
- Merchant Intermediaries take title to the product
- Agent Intermediaries do not take title to the product
Manufacturer
Coors Beer, Golden, CO.
Wholesaler
Cleveland Coors Distributor
Retailer
Giant Eagle
Consumer
YOU.

Consumer and Business Marketing Channels

i. Flow Types: Ownership, payment, information, and promotion.

A channel of producer, final customer, and at least one intermediary is an indirect channel.
III. Functions of Intermediaries

A. Physical Distribution Functions
   • Bulk
   • Assortment
   • Transportation
   • Storage
   FEDEX Supply Chain Services (previously Caliber Logistics)

B. Communication

C. Facilitating Functions
   • Service
   • Credit
   • Risk
Cutting the Middleman

Does not eliminate the costs associated with the functions performed by that intermediary

Manufacturer
Wholesaler
Retailer
Ultimate Consumer

Still must break bulk, arrange assortment, store and ship or these functions to the retailer

Functions of Intermediaries

A. Physical Distribution Functions
1. Breaking Bulk:
Buy in large quantities, sell in small quantities

Breaking Bulk:

PRODUCER
INTERMEDIARY
Buyer A Buyer B Buyer C Buyer D
Functions of Intermediaries

2. Accumulating Bulk:
Buy units from many small producers, offer larger amounts to buyers

Functions of Intermediaries

3. Creating Assortments:
• Resolve the discrepancy: factories produce large quantities of a single product, buyers want small quantities of a variety of products
Functions of Intermediaries

4. Reducing Transactions:
Intermediaries as buying agents for their customers and selling agents for producers, simplify the process.

Reducing Transactions

Physical Distribution Functions

5. Transportation and Storage:
physical movement of merchandise from points of production to points of consumption, including storage.
Transportation and Storage

Manufacturer produces Swimsuits in September

Storage fills until January

Retailer accepts delivery in January

Retail Stores

Communication:

Linkage between manufacturer and retailer, or the wholesaler and retailer to:
1. transfer ownership - consummate an exchange of title
2. perform promotion - sales force, advertising, sales promotion
3. judge quality of alternative manufacturers

Communication:

4. inform buyers how products are to be sold, used, repaired
5. conduits of information with many different suppliers
6. collect information from retailers and consumers
Facilitation

1. all the "extra" services
   --post-sale repair service
   --management services (accounting systems, inventory planning, store site selection, layout, management training)
   --credit
   --risk-taking

Conventional and Vertical Marketing Systems

Historically, Distribution Channels:
1. Stressed the independence of individual members,
2. Focused on **individual** needs / objectives
Conventional and Vertical Marketing Systems

- **Vertical marketing systems**
  - ii. Tightly coordinated to improve operating and marketing efficiency!

A. **Corporate**:
   - Total ownership
     - Sherwin-Williams (owns production & retail facilities)
     - Florsheim

B. **Administered**:
   - Strong leadership by producer, wholesaler, or retailer
     - General Electric

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Type of channel</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Traditional</td>
</tr>
<tr>
<td></td>
<td>Administered</td>
</tr>
<tr>
<td>Amount of cooperation</td>
<td>Little or none</td>
</tr>
<tr>
<td>Control maintained by</td>
<td>None</td>
</tr>
<tr>
<td>Examples</td>
<td>Typical Independents</td>
</tr>
</tbody>
</table>

**Vertical Marketing Systems**

1) **Corporate (ownership) VMS**:
   - Nike,
   - Kroger,
   - Sherman Williams
   - Luxottica group
Luxottica

The vertical integration of design-production-distribution represents a business model unique in this industry. Our company, together with long-lasting partnerships with leading luxury and fashion brands, provides outstanding results.

Vertical Marketing Systems

C. Contractual:
Legal relationships assign channel leadership
Vertical Marketing Systems

E. Voluntary Chain:
Wholesaler initiates the combining of services
– Ace Hardware GO!
F. Franchise:
Agreement between franchisor and franchisees
– McDonald's GO!

Conventional Versus Vertical Marketing Systems

<table>
<thead>
<tr>
<th>Conventional Marketing System</th>
<th>Vertical Marketing System</th>
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<tbody>
<tr>
<td>Manufacturer</td>
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</tbody>
</table>
Internet Marketing

Internet Marketing Resources
http://www.cumbrowski.com/default.asp

Internet Marketing Articles
http://www.marketingnation.com/internet_marketing_articles

Internet Marketing Newsletters
http://www.marketingnewsletter.com/indexTODAY.php

Internet/Web Marketing Books
http://www.stetson.edu/~rhansen/netmkt.html#books

Ideas on Success in Internet Marketing
http://www.applied-web-marketing.com/

Disadvantages of Internet Marketing

• Low Barriers to Entry
  - Online setup is relatively inexpensive, thus barriers to entry are low
  - Competition is high
• Comparison Shopping is Easy
  - Some online sites offer "shop bots" that search online merchants for the lowest price
  - Margins are tight, therefore difficult for merchants to raise prices without losing sales
Disadvantages of Internet Marketing

- Consumer Confidence
  - Confidence takes a long time to build and is extremely easy to lose
  - Consumers can't touch the product

- Security Concerns
  - One of the most common obstacles of e-commerce is the overall fear of fraud
  - Positive word-of-mouth should help

- Customer Service Problems
  - With virtual stores, customers have nowhere to go to either check out the merchandise or return/exchange items
  - Many e-trailers focus on giving good customer service as one of their competitive advantages but this is not easy or inexpensive
  - Shipping
    - Shipping times are generally getting shorter as e-commerce companies build out better distribution systems

- Site Outages
  - Outages are costly and unacceptable to consumers

- Cash Burn
  - Should be of primary importance to any investors in the Internet
  - Companies must achieve profitability or fail !!!
Disadvantages of Internet Marketing

- Dot Com Graveyard
  - Furniture.com
  - Garden.com
  - Pets.com
  - Living.com
- There are no links!!

..BUT

- Personalize Ads For Frequent Online Shoppers and Bigger Spenders.
- According to the 2008 Personalization Survey from ChoiceStream, 39% of consumers overall are more likely to click on an ad if it is personalized, while that number rises to 58% among those who shop online at least several times a month.

Managing the Channel of Distribution

Channel Tends to be LONGER:
- Low Price
- Durable Product
- Complex Product
- After-sale Service
- Limited Resources
- Many Small Customers
- Many Producers
- Capable Intermediaries

Channel Tends to be SHORTER:
- High Prices
- Perishable Products
- Simple Products
- Substantial Resources
- Few Large Customers
- Few Producers
- Focused Merchandising
- Few Intermediaries
Pricing and the Relationship with Channel Members

Garick is doing line reviews with their retailers (Wal-Mart, Home Depot, and Lowe's) for next season. How do you price in advance these days? With uncertainty in the economic environment. So Garick created a fuel surcharge for the first time. This creates a problem in planning for your customers, the retailer.

Gary recalls there being 4P's (which has NOT changed!) Price was viewed as being "easy," cost-plus pricing. But it is more complicated when you think about your relationship with a retailer. Will it be used as a loss leader, for a promotion, or part of a two for one deal? SO, pricing IS a marketing decision. What is our "appropriate price" for our customer, given OUR costs. Then you need to consider YOUR strategy.

Do we want intensive and fast distribution? So we set a low price. Do we have a competitive advantage, for a year or two or six months, so that we can set a high price and get a great profit margin until our competitors catch on? OR do we need to consider how our customer wants to price it? It IS a function of Marketing!

Market Exposure

Intensive = number of outlets
Selective
Exclusive

What Market Exposure Fits the Marketing Objectives?

Extent of Distribution

INTENSIVE SELECTIVE EXCLUSIVE

Maximum Exposure at Retail Level; Saturate Every Outlet
Chewing Gum

Limited number of Select Outlets
Hathaway Shirts

Limited number of Select Outlets
Hathaway Shirts
Channel Independency

Channel Cooperation:
• Objectives and strategies of two channel members are harmonious

Channel Conflict:
• Antagonistic relationship from the absence of clear channel power or disagreement over purpose

Channel Independency

Channel Power:
• Ability to influence the behavior of another channel member, channel leader or channel captain

Types of Channel Power

• Coercive Power:
  Force compliance by threats of punishment, such as loss of business

• Reward Power:
  Offer incentives, usually economic, to induce compliance
Types of Channel Power

- Expert Power:
  Induce compliance due to superior expertise or knowledge
- Referent Power:
  Earn admiration and respect, leading to compliance
- Legitimate Power:
  Exert influence based on legal agreements

Ethical, Political, and Legal Forces

- Reverse Distribution:
  - Recycling
- Costs of Distribution Functions:
  - Eliminating middlemen does not reduce the functions to be performed!!!!

Ethical, Political, and Legal Forces

Legal Regulation:
- Exclusive dealing:
  - A supplier prohibits intermediaries that handle its product from selling competing products
- Exclusive Territories:
  - Is competition restricted? Justification includes: investment is so great it justifies exclusivity; image or quality
Ethical, Political, and Legal Forces

• Tying Contracts:
  – Require intermediary to purchase merchandise that is supplementary to the desired product

Distribution Information on the WEB

• Logistic Management Magazine --
  – http://www.logisticsmgmt.com/go!
• A Page of Logistics Related Links
  – Provided by Gross & Assoc.
  – http://grossassociates.com/go!

SIGNIFICANCE OF SUPPLY CHAIN AND LOGISTICS MANAGEMENT

> Supply Chain
  is a sequence of firms that perform activities required to create and deliver a good or service to consumers or industrial users.
  It includes suppliers that provide raw material inputs, the manufacturer, the wholesalers and retailers that deliver finished goods.
The items all come from different raw materials with different manufacturing processes, coming from all over the world! The opportunity for managing all of these processes is tremendous. Think of the opportunities from the time the material is grown, harvested, manufactured, all the way to the point of sale of the items! There are opportunities for efficiencies, profitability, and firms to facilitate these.

**Significance of Supply Chain and Logistics Management**

**Key Concepts**

- **Supply Chain Management**
  
  Is the integration and organization of information and logistic activities across firms in a supply chain for the purpose of creating and delivering goods and services that provide value to consumers.