

Topic 12: Distribution and the Internet

Learning Objectives

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- After reading this topic, you will be able to:
 - Describe the three major functions of a distribution channel.
 - Explain how the internet is affecting distribution channel length.
 - Discuss trends in supply chain management and power relationships among channel players.
 - Outline the major models used by online channel members.
 - Highlight how companies can use distribution channel metrics.

The Dell Direct Model

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- Dell utilizes a direct-distribution model to sell about \$50 million per day online, half of its sales.
 - Wholesalers and retailers are eliminated.
 - Dell turns its inventory every 10 days.
 - Through its direct channel, Dell directly monitors its customers' needs.
- Dell handles 10,000 customer communications per day from corporations, government agencies, medical and educational institutions, small businesses, and individuals.

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The Dell Direct Model, cont.

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- Dell operates in B2B and B2C environments in 140 country markets.
 - Maintains 60,000 custom Web storefronts for major corporate buyers.
 - Allows online customers to build their own systems and uses the information to guide new product development.
- Have you (or has someone you know) benefited from Dell's mass customization strategy?

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Distribution Channel Overview

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- A distribution channel is a group of interdependent firms that transfer product and information from the supplier to the consumer.
 - Producers
 - Intermediaries
 - Buyers
- The structure of the channel can make or impede opportunities for marketing on the internet.

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Online Channel Intermediaries

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- Wholesalers buy products from the manufacturer and resell them to retailers.
- Retailers buy products from manufacturers or wholesalers.
- Brokers facilitate transactions between buyers and sellers.
- Agents may represent either the buyer or seller.
 - Manufacturers' agents represent the seller.
 - Purchasing agents represent the buyer.

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E-Business Models

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□ Ex.12.1

1. Content sponsorship	
2. Infomediary	
3. Intermediaries	
Broker:	Online exchange Online auction
Agent:	Agent models representing seller Selling agent (affiliate program) Manufacturer's agent (catalog aggregator) Agent models representing buyer (purchasing agent) Shopping agent Reverse auction Buyer cooperative
Online retailer (e-commerce):	Digital products Tangible products Direct distribution

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Content Sponsorship Model

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- In this model firms create Web sites, attract traffic, and sell advertising.
- All the major portals utilize this model:
 - Google
 - Yahoo!
 - MSN
- Content sponsorship is often used in combination with other models to generate multiple revenue streams.

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Infomediary Model

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- An infomediary aggregates and distributes information.
- Market research firms are examples of infomediaries.
- Some infomediaries compensate consumers for sharing demographic and psychographic information and receiving ads targeted to their interests.

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Intermediary Models

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- Three intermediary models are in common use on the internet:
 - Brokerage models
 - Online Exchange
 - Online Auction
 - Agent models for sellers and buyers
 - Online retailing models

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Brokerage Models

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- The Broker creates a market in which buyers and sellers negotiate and complete transactions.
 - E*Trade, Schwab and Ameritrade allow customers to place trades online.
- The B2B market has also spawned brokerages.
 - Converge is the leading exchange for global electronics.
 - Guru.com is an exchange for talent in 160 professional categories.
- Online auctions are available in the B2B, B2C, and C2C markets.

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Agent Models Representing Sellers

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- May represent sellers or buyers.
- Agent models that represent sellers include:
 - Selling agents
 - Manufacturer's agents
 - Intermediaries that act like agents such as Edmunds.com and The Knot
 - Virtual malls

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Agent Models Representing Buyers, cont.

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- Agents that represent buyers include:
 - Shopping agents
 - BizRate.com
 - Reverse auctions
 - Priceline
 - Buyer Cooperatives (buyer aggregator) pool many buyers together to drive down the price.

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Online Retailing

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- Online retailing is one of the most visible e-business models.
 - Online merchants set up storefronts online that can sell a greater assortment of products than offline.
 - Shopping cart abandonment during the purchasing process is one of online retailing's biggest problems.
- Digital goods such as news, music, software, movies, etc. may be delivered over the internet.
- The manufacturer sells directly to the customer in the direct distribution model.

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Distribution Channel Length and Functions

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- Channel length refers to the number of intermediaries between the supplier and the consumer.
- Direct distribution channels have no intermediaries.
- Indirect channels have one or more intermediaries.
- Eliminating intermediaries can potentially reduce costs.

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Channel Length

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- The length of the channel refers to the number of intermediaries between supplier and consumer
- Complete disintermediation, the process of eliminating traditional intermediaries, has not occurred.
 - The U.S. distribution system is the most efficient in the world.
 - Using intermediaries allows companies to focus on what they do best.
 - Many traditional intermediaries have been replaced with internet equivalents, such as online storefronts.

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Functions of a Distribution Channel

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- Channel functions can be characterized as follows:
 - ▣ Transactional
 - ▣ Logistical
 - ▣ Facilitating

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Transactional Functions

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- Transactional Functions include:
 - ▣ Making contact with buyers.
 - ▣ Marketing communication strategies.
 - ▣ Matching products to buyer needs.
 - ▣ Negotiating prices.
 - ▣ Processing transactions.

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Logistical Functions

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- Logistical functions include physical distribution activities, such as:
 - Transportation
 - Inventory storage
 - Aggregation of products
- Logistical functions are often outsourced to third-party specialists.

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Outsourced Logistics

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- Third-party logistics providers can manage the supply chain and provide value-added services.
 - UPS
 - FedEx
 - United States Postal Service (USPS)
- In the C2C market, eBay has formed a partnership with Mailboxes Etc.

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The Last Mile Problem

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- A big problem for online retailers is the expense of delivering small quantities to homes and businesses.
 - 25% of deliveries require multiple delivery attempts.
 - 30% of packages are left on doorsteps, with possibilities for theft.
- Innovative firms are introducing solutions.
 - Smart box.
 - Retail aggregator model: delivery at convenience stores or service stations.
 - E-stops.
 - Order online for offline retail delivery.

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Facilitating Functions: Market Research

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- Market research is a major function of the distribution channel.
- There are costs and benefits of internet-based market research.
 - Some information is free.
 - Employees can conduct research from their desks.
 - Internet-based information tends to be timelier.
 - Web-based information is in digital form.
 - E-marketers can receive detailed reports.

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Facilitating Functions: Financing

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- Intermediaries want to make it easy for customers to pay and to close the sale.
- Credit card companies have formed Secure Electronic Transactions (SET).
 - Legitimizes merchants and consumers.
 - Protects consumers' credit card numbers.
 - Consumers have a maximum \$50 liability for purchases made with a stolen card.
 - Legal protection does not exist in all countries.

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Distribution System

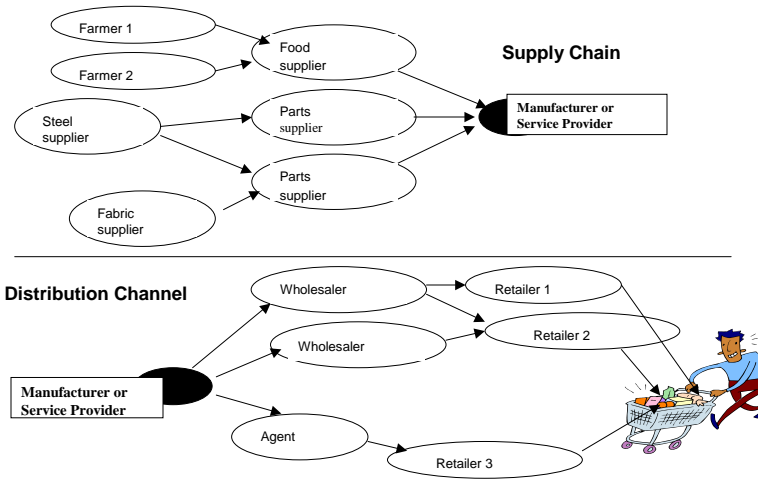
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- There are 3 ways to define the scope of the channel as a system.
 - Distribution functions that are downstream from the manufacturer to the consumer.
 - The supply chain, upstream from the manufacturer, working backwards to raw materials.
 - Consider the supply chain, manufacturer, and distribution channel as an integrated system called the value chain or integrated logistics.

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Supply Chain & Distribution Channel

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Supply Chain Management

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- Supply chain management (SCM) refers to the coordination of the flow of material, information, and finance.
- Key functions of supply chain management are continuous replenishment and build to order to eliminate inventory.
- Supply chain participants use enterprise resource planning (ERP) systems to manage inventory and processes.

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Channel Management and Power

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- Channel management requires coordination, communication, and control to avoid conflict among channel members.
- Electronic data interchange (EDI) is effective for establishing structural relationships among businesses.
- The goal is to create an internet-based, open system so that suppliers and buyers can integrate their systems.
 - Extensible Markup Language (XML) is the probable technology for achieving the goal.

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Distribution Channel Metrics: B2C Market

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- U.S. consumers spent \$136 billion online during 2007.
 - eMarketer concluded that e-commerce sales and influences on off-line sales accounted for 27% of all retail sales in 2007.
- Besides revenue, B2C metrics may include:
 - ROI.
 - Customer satisfaction levels.
 - Customer acquisition costs.
 - Conversion rates.
 - Average order values.

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Distribution Channel Metrics: B2B Market

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- B2B e-commerce was estimated at \$624 billion in 2004.
- B2B metrics may include:
 - ▣ Time from order to delivery.
 - ▣ Order fill levels.
 - ▣ Other activities that reflect functions performed by channel participants.