

## Chapter 15: Managing Marketing Channels and Wholesaling

- I. **Introduction Example – Toys “R” Us**
  - a. Founded by Charles Lazarus
    - i. Create the world's largest toy chain!
    - ii. Founded in 1978, it average a growth rate of 30%
  - b. And, as we might expect it then attracted
    - i. Of both Walmart and Target
    - ii. The result, Toys “R” Us Market share fell from 25% to 17%
  - c. Wal-Mart over took Toys “R” Us to become the largest volume seller of toys in the U.S.
  - d. Toys “R” Us reacted by renovating its stores, increasing it toy assortment, and changed its SUPPLY CHAIN arrangements to reduce inventory.
    - i. For the toy manufacturers this meant
    - ii. To boost their profits, they reacted in two ways
      - 1. Some reduced the flow of “hot toys” to
      - 2. Others gave Toys “R” Us exclusive
- II. **The Nature and Importance of Marketing Channels**
  - a. **Marketing Channel**
    - i. Consists of Individuals and firms involved in the process of making a product or service available for use or consumption by consumers or industrial users.
  - b. **Middlemen (aka Intermediaries)**
    - i. Middlemen are business firms in a channel that render services directly related to the sale/purchase of a product as it flows through from producer to consumer
      - 1. Distribution’s role within a marketing mix is getting the product to its target market.
    - ii. Middlemen can promote the product, store it, ship it and assume some of the financial risk during the distribution process
      - 1. Merchant Middlemen & Agent Middlemen

- a) Middlemen are commonly classified on the basis of whether or not they take title to the products being distributed.
  - b) Merchant middlemen take title to the products they help to market
- iii. As a "RULE" you can eliminate middlemen, but NOT the essential distribution activities they perform
- 1. (well...that's ALMOST always true; the [RADIOHEAD](#) experiment)

iv. Middlemen Activities

- 1. Transactional Functions
- 2. Logistical Functions
- 3. Facilitating Functions
- 4. Example – A Sales specialist for producers can:
  - a) Provide market information
  - b) Interpret consumers' wants
  - c) Promote producers' products
  - d) Create assortments
  - e) Store products
  - f) Negotiate with customers
  - g) Provide financing
  - h) Own the product
  - i) Share the risks
- 5. Example – A Purchasing agent for buyers can:
  - a) Anticipate wants
  - b) Subdivide large quantities
  - c) Store the product
  - d) Transport the product
  - e) Create assortment
  - f) Provide financing
  - g) Make products readily available
  - h) Guarantee the product

i) Share the risks

## 6. Example – The Kent Stage

### c. Distribution Channels

i. Distribution Channels include people and firms involved in the transfer of title to a product as the product moves from a producer to the ultimate consumer or business user

Producers → Middlemen → Final Consumer or Business User

ii. The channel for a product only extends to the last person that buys it without making any significant change in its form

1. When the firm is altered, another product emerges and a new channel is started.

iii. Example (supply channel for Lumber and for Finished Furniture)



iv. Other intermediaries include:

1. Banks
2. Insurance companies
3. Transportation companies