

Brief Contents

Preface	xix	
PART I:	INTRODUCTION	1
Chapter 1	Marketing Channels: Structure and Functions	1
PART II:	CHANNEL DESIGN: DEMAND, SUPPLY, AND CHANNEL EFFICIENCY	40
Chapter 2	Segmentation for Marketing Channel Design: Service Outputs	40
Chapter 3	Supply Side Channel Analysis: Channel Flows and Efficiency Analysis	72
Chapter 4	Supply-Side Channel Analysis: Channel Structure and Intensity	112
Chapter 5	Gap Analysis	154
PART III:	CHANNEL IMPLEMENTATION	196
Chapter 6	Channel Power: Getting It, Using It, Keeping It	196
Chapter 7	Managing Conflict to Increase Channel Coordination	243
Chapter 8	Strategic Alliances in Distribution	289
Chapter 9	Vertical Integration in Distribution	330
Chapter 10	Legal Constraints on Marketing Channel Policies	377
PART IV:	CHANNEL INSTITUTIONS	425
Chapter 11	Retailing	425
Chapter 12	Wholesaling	484
Chapter 13	Franchising	518
Chapter 14	Logistics and Supply Chain Management	560
Company Index		577
Name Index		583
Subject Index		589

Contents

PREFACE **xix**

PART I: **INTRODUCTION** **1**

CHAPTER 1 **Marketing Channels: Structure and Functions** **1**

What Is a Marketing Channel? 2

Why Do Marketing Channels Exist and Change? 5

Demand-Side Factors 6

Supply-Side Factors 7

What Is the Work of the Marketing Channel? 10

Who Belongs to a Marketing Channel? 14

Manufacturers 14

Intermediaries 15

End-Users 16

Channel Formats as Combinations of Channel Members 16

A Framework for Channel Analysis 17

Channel Design: Segmentation 17

Channel Design: Channel Structure Decisions 19

Channel Design: Splitting the Workload 21

Channel Design: Degree of Commitment 22

Channel Design: Gap Analysis 22

Channel Implementation: Identifying Power Sources 24

Channel Implementation: Identifying Channel Conflicts 24

Channel Implementation: The Goal of Channel Coordination 25

Channel Design and Implementation: Insights for Specific Channel Institutions 25

Organization of the Text 27

Summary 27

Discussion Questions 29

Endnotes 30

Appendix 1A: Alternate Channel Formats 33

PART II: **CHANNEL DESIGN: DEMAND, SUPPLY,**
 AND CHANNEL EFFICIENCY **40**

CHAPTER 2 **Segmentation for Marketing Channel Design:**
 Service Outputs **40**

End-User Channel Preferences 41

Service Outputs 43

Segmenting the Market by Service Output Demands	55
Meeting Service Output Demands	59
The Role of Service Output Demand Analysis in Marketing Channel Design	61
Discussion Questions	64
Endnotes	65
Appendix 2A: The Service Output Demands Template	68

CHAPTER 3 Supply Side Channel Analysis: Channel Flows and Efficiency Analysis 72

Channel Flows Defined	73
<i>Eight Generic Channel Flows</i>	73
<i>Customizing the List of Flows for a Particular Channel</i>	91
<i>Who Does Which Channel Flows?</i>	92
Describing the Current Channel with the Efficiency Template	92
Using Channel Flow Concepts to Design a Zero-Based Channel	98
Matching Normative and Actual Profit Shares: The Equity Principle	100
Summary: Channel Flow Analysis as Part of the Overall Channel Audit Process	101
Discussion Questions	103
Endnotes	104
Appendix 3A: The Efficiency Template	106

CHAPTER 4 Supply-Side Channel Analysis: Channel Structure and Intensity 112

Introduction	113
Coverage versus Assortment: Framing the Decisions of Upstream and Downstream Channel Members	114
<i>Why More Coverage Is Better for Manufacturers of Convenience Goods</i>	114
<i>Why Downstream Channel Members Dislike Intensive Distribution</i>	115
<i>Can the Manufacturer Sustain Intensive Distribution?</i>	119
<i>Degree of Category Exclusivity: The Downstream Channel Member's Decision</i>	120
Striking a Deal: How Much Selectivity to Trade Away	122
<i>The Threat of Complacency</i>	122
<i>The Nature of the Product Category</i>	122
<i>Brand Strategy: Quality Positioning and Premium Pricing</i>	124
<i>Brand Strategy: Target Market</i>	127
Bargaining for Influence over Channel Members	127
<i>Desired Coordination</i>	128
<i>Manufacturer-Specific Investments by Downstream Channel Members</i>	129
<i>Dependence Balancing: Trading Territory Exclusivity for Category Exclusivity</i>	131
<i>Reassurance: Using Selectivity to Stabilize Fragile Relationships</i>	134
<i>The Price of the Concession: Factoring in Opportunity Cost</i>	135

Back to the Basics: Cutting Costs and Raising Sales	137
<i>Saving Money by Limiting the Number of Trading Partners</i>	137
<i>Do More Trading Partners Really Mean More Revenue?</i>	138
<i>A Caution on the Issue of Limiting the Number of Trading Partners</i>	139
Simulating the Benefits of Selectivity While Maintaining Intensive Coverage	140
Going to Market via Multiple Types of Channels	141
Dual Distribution: Going to Market via Independent Channels and Self-Owned Channels	144
<i>Inherent Rivalry</i>	144
<i>The Demonstration Argument</i>	144
Carrier-Rider Relationships	145
Summary	146
Discussion Questions	149
Endnotes	150

CHAPTER 5 Gap Analysis 154

Sources and Types of Channel Gaps	155
<i>Sources of Gaps</i>	155
<i>Types of Gaps: Demand-Side Gaps</i>	168
<i>Types of Gaps: Supply-Side Gaps</i>	174
<i>Combined Channel Gaps</i>	176
Closing Channel Gaps	180
<i>Closing Demand-Side Gaps</i>	180
<i>Closing Supply-Side Gaps</i>	183
<i>Challenging Gaps Produced by Environmental or Managerial Bounds</i>	184
Pulling It Together: The Gap Analysis Template	185
Discussion Questions	192
Endnotes	192

PART III: CHANNEL IMPLEMENTATION 196

CHAPTER 6 Channel Power: Getting It, Using It, Keeping It 196

The Nature of Power	196
<i>Power Defined</i>	197
<i>Is Power Good or Bad?</i>	198
<i>Why Marketing Channels Require Power</i>	199
Power as the Mirror Image of Dependence	200
<i>Specifying Dependence</i>	200
<i>Measuring Dependence Directly</i>	201
<i>Measuring Dependence via Proxy Indicators</i>	203
The Greatest Source: Reward Power	204
Four More Sources of Power	209
<i>Coercive Power</i>	209
<i>Expert Power</i>	210

<i>Legitimate Power</i>	214
<i>Referent Power</i>	216
<i>Separating the Five Power Sources</i>	216
<i>Putting It Together: What Is Power and How Do You Index It?</i>	218
The Balance of Power	219
<i>Net Dependence</i>	219
<i>Imbalanced Dependence: Is Exploitation Inevitable?</i>	220
<i>Imbalanced Dependence: Countermeasures for the Weaker Party</i>	222
<i>Tolerating Imbalanced Dependence: The Most Common Scenario</i>	224
Exercising Power: Influence Strategies	226
<i>Six Influence Strategies</i>	227
<i>The Consequences of Each Strategy</i>	228
<i>How to Frame an Influence Attempt</i>	229
Summary	230
Discussion Questions	238
Endnotes	238
CHAPTER 7 Managing Conflict to Increase Channel Coordination	243
Assessing the Degree and Nature of Channel Conflict	244
<i>What Is Channel Conflict?</i>	244
<i>Measuring Conflict</i>	246
The Consequences of Conflict	247
<i>When Conflict Is Desirable</i>	247
<i>How Intense Conflict Damages Channel Performance and Coordination</i>	249
Major Sources of Conflict in Marketing Channels	251
<i>Competing Goals</i>	251
<i>Differing Perceptions of Reality</i>	252
Clash of Market Domains	256
<i>Intrachannel Competition</i>	256
<i>Multiple Channels: No Longer Unusual</i>	257
<i>Is It Really a Problem?</i>	259
<i>What Suppliers Can Do</i>	262
<i>Unwanted Channels: Gray Markets</i>	263
Fueling Conflict	266
<i>Conflict Begets More Conflict</i>	266
<i>Threats</i>	266
Conflict Resolution Strategies: How They Drive Conflict and Shape Channel Performance	271
<i>Resolving Conflict: Institutionalized Mechanisms Designed to Contain Conflict Early</i>	271
<i>Styles of Conflict Resolution: How Channel Members Handle Disputes and Negotiate to Achieve Their Goals</i>	275
<i>Resolving Conflict and Achieving Coordination via Incentives</i>	277
Summary	281
Discussion Questions	284
Endnotes	285

CHAPTER 8 Strategic Alliances in Distribution 289

Strategic Alliances: Their Nature and the Motives
 for Creating Them 290

What Is a Strategic Distribution Alliance? 290

Why Forge a Strategic Distribution Alliance? Upstream Motives 292

Why Forge a Strategic Distribution Alliance? Downstream Motives 295

Do Alliances Outperform Ordinary Channels? 297

Building Commitment by Creating Mutual Vulnerability 299

The Minimum Requirement: Expectations of Continuity 299

Why Commitment Is Nil Unless It Is Mutual 300

How the Other Side Gauges Your Commitment 302

Actions That Bind Distributors to Suppliers 305

Actions That Bind Suppliers to Distributors 306

Creating Alliances via Ties That Bind 306

Building Commitment by the Management
 of Daily Interactions 308

How Can Channel Members Manufacture Trust? 311

The Fundamental Role of Economic Satisfaction 311

Noneconomic Satisfaction Also Matters 312

Picking the Partner and the Setting 314

Decision Structures That Enhance Trust 316

How Do You Manufacture Trust in a Channel? 317

Moving a Transaction Through Stages of Development
 to Reach Alliance Status 317

From Cradle to Grave: The Life of a Marketing Channel Partnership 317

Managing the Stages 320

Managing Troubled Relationships 321

The Virtues of a Portfolio of Relationships 321

Putting It All Together: What Does It Take and When Does
 It Pay to Create a Marketing Channel Alliance? 323

Discussion Questions 326

Endnotes 327

CHAPTER 9 Vertical Integration in Distribution 330

Introduction 330

Five Puzzles 331

Make or Buy: A Critical Determinant of Company Competencies 332

Chapter Organization 332

The Costs and Benefits of Vertical Integration
 in Marketing Channels 333

Degrees of Vertical Integration 333

Costs and Benefits of the Choice to Make 335

The Choice to Buy Distribution: Terms of Payment to Third Parties 337

Deciding When to Vertically Integrate Forward:
 An Economic Framework 339

Return on Investment: The Usual Criterion 339

Outsourcing as the Starting Point 340

Six Reasons to Outsource Distribution 341

Vertical Integration Forward When Competition Is Low	346
<i>Company-Specific Capabilities</i>	346
<i>Six Types of Company-Specific Capabilities in Distribution</i>	350
<i>Rarity versus Specificity: The Effects of Thin Markets</i>	358
<i>Turning the Lens Around: Should the Channel Member Integrate Backward?</i>	358
Vertical Integration to Cope with Environmental Uncertainty	360
Vertical Integration to Reduce Performance Ambiguity	363
<i>The Baseline Problem</i>	363
<i>Results Indicators That Are Inaccurate, Late, or Nonexistent</i>	364
Summary of the Decision Framework	365
Vertical Integration as an Observatory on the Market or as an Option: Economic Rationality or Rationalization?	367
Summary	370
Discussion Questions	373
Endnotes	374

CHAPTER 10 Legal Constraints on Marketing Channel Policies 377

Market Coverage Policies	378
Customer Coverage Policies	383
Pricing Policies	384
<i>Price Maintenance</i>	385
<i>Price Discrimination</i>	388
Product Line Policies	399
<i>Exclusive Dealing</i>	399
<i>Tying</i>	403
<i>Full-Line Forcing</i>	405
<i>Designated Product Policies</i>	407
Selection and Termination Policies	408
Ownership Policies	411
<i>Vertical Integration by Merger</i>	412
<i>Vertical Integration by Internal Expansion</i>	413
<i>Dual Distribution</i>	413
Summary and Conclusions	414
Discussion Questions	418
Endnotes	418

PART IV: CHANNEL INSTITUTIONS 425

CHAPTER 11 Retailing 425	
Retailing Defined	425
Choosing a Retail Positioning Strategy	426
<i>Financial and Cost-Side Positioning: Margin and Inventory Turnover Goals</i>	435
<i>Demand-Side Positioning</i>	442
<i>Implications for a Taxonomy of Retail Types</i>	449

Strategic Issues in Retailing	451
<i>Managing the Multichannel Shopping Experience</i>	451
<i>Recognizing and Responding to the Continued Strong Power Position of Major Retailers</i>	463
<i>The Continued Globalization of Retailing</i>	470
Summary and Conclusions	472
Discussion Questions	474
Endnotes	475
Appendix 11A: A Glossary of Pricing and Buying Terms Commonly Used by Retailers	479
Appendix 11B: Merchandise Planning and Control	481
CHAPTER 12 Wholesaling	484
Introduction	484
An Overview of the Wholesaling Sector	485
<i>Wholesaler-Distributors</i>	485
<i>The Wholesaler-Distributor's Role in the Supply Chain</i>	486
<i>The Importance of Wholesaler-Distributors</i>	487
What the Independent Wholesale Sector Offers:	
The Essential Tasks	488
<i>Three Great Challenges of Wholesaling: 200 Years of Pharmaceuticals</i>	489
<i>Wholesaling in an Emerging Economy</i>	490
<i>Surprising Ways for Wholesalers to Add Value</i>	492
<i>Master Distributors</i>	493
Federations of Wholesalers	495
<i>Wholesaler-Led Initiatives</i>	496
<i>Integrated Supply</i>	496
<i>Manufacturer-Led Initiatives</i>	496
<i>The Requirements for Innovative Wholesale Service</i>	497
Voluntary and Cooperative Groups	498
<i>Wholesaler Voluntary Groups</i>	498
<i>Alternative Federations of Downstream Channel Members</i>	499
Consolidation	502
<i>Consolidation Pressures in Wholesaling</i>	502
<i>The Manufacturer's Response to Wholesale Consolidation</i>	504
Export Distribution Channels	505
The Future of Wholesaler-Distributors	506
<i>International Expansion</i>	506
<i>Electronic Commerce</i>	507
<i>B2B E-Online Exchanges</i>	508
<i>Online Reverse Auctions</i>	509
<i>Capturing Value After Creating Value: Wholesaler Profitability</i>	509
A Sketch of Vertical Integration and of Agents in Wholesaling	510
<i>Vertical Integration Forward into Wholesaling by Manufacturers</i>	510
<i>Set the Price and See the Buyer: Agents, Brokers, and Commission Agents</i>	511

Summary 513
Discussion Questions 515
Endnotes 515

CHAPTER 13 Franchising 518

What Is Franchising? 518

Why Become a Franchisee? 520
The Start-Up Package 523
Ongoing Benefits 523
Why Ask a Franchisor to Provide These Services? 524

Why Become a Franchisor? 525
Raising Financial and Managerial Capital to Grow Fast 525
Harnessing the Entrepreneurial Spirit 527
When Is Franchising Inappropriate? 530

The Historical Roots of Franchising 531
The Authorized Franchise System: Moving the Product 531
The Dividing Line: When Does Franchising Stop? 535

The Franchise Contract 536
Giving and Taking Hostages, Or Why You Shouldn't Leave It to Lawyers 536
The Payment System 537
Who Will Be the Landlord? 539
Termination 539
Why Contracts Do Not Vary within a System 540
Safeguards Outside the Contract 540
When Do Franchisors Enforce Their Contracts? 541

Why Franchise Systems Include Company Outlets 543
Variation in Situations 543
Temporary Franchises and Temporary Company Stores 544
The Plural Form: Exploiting the Synergy of Having Both Company and Franchisee Outlets 544
Exploiting Franchisees: Redirection of Ownership 546

Ongoing Challenges Facing the Franchisor 547
Survival 547
Gaining and Keeping a Cooperative Atmosphere 548
Inherent Goal Conflict 549
Multinuit Franchising: Handicap or Advantage? 550
Other Ways to Gain Cooperation 552

Summary 552
Discussion Questions 555
Endnotes 556

CHAPTER 14 Logistics and Supply Chain Management 560

The Impact of Logistics and Supply Chain Management 560

Responding Efficiently 561
Efficient Consumer Response 563
Obstacles to Efficient Consumer Response 564

Responding Rapidly	565
Putting It All Together: What Is the Right Supply Chain?	566
<i>Physical Efficiency versus Market Responsiveness</i>	566
<i>Supply Chain Management: Why Only Now?</i>	571
Summary	572
Discussion Questions	573
Endnotes	574
COMPANY INDEX	577
NAME INDEX	583
SUBJECT INDEX	589