

4.6: Managing Distribution Channels

What you'll learn to do: explain how channels affect the marketing of products and services

By March 2014, most Americans had noticed the Geico gecko; some had fallen in love with him. Regardless of buyers' feelings about the little lizard, by 2014 enough had purchased auto insurance from Geico through its online sales portal to change the landscape of the insurance industry. *Fortune* magazine reported on the company's success:

It's official. After decades as the second-largest auto insurer in the U.S., Allstate Corp. now is No. 3.

Geico, the online auto insurer owned by Warren Buffett's Berkshire Hathaway Inc., surpassed Allstate in 2013 in auto premiums collected. Berkshire Hathaway released its 2013 results today, finally laying out in black and white the long-anticipated symbolic passing of that torch.

State Farm Insurance Cos. remains the largest auto insurer in the U.S. by a large margin. But it's telling that the No. 2 player now is a company that sells mainly over the Internet rather than through an army of agents. Both State Farm and Allstate still largely depend on thousands of agents around the country to sell their product, but the online channel has grown much faster over the past decade and is expected to continue that trajectory.^[1]

Geico chose to use a channel strategy that eliminates agents as intermediaries and provides a direct channel to consumers. What benefits does this offer consumers? In order to take full advantage of the channel, Geico had to clearly identify and communicate the benefits to its target customers. It did this largely by means of a clever advertising slogan: "Give us 15 minutes and we'll save you 15 percent on your car insurance." (Some credit for Geico's success is probably due to the lizard, too, which helped the company improve its brand visibility.)

While the message doesn't say anything overt about Geico's channel strategy, the message to customers is clear: Geico delivers good value ("save 15 percent") *fast* (it only takes 15 minutes). The company's ability to offer that value (savings and speed) really does come from its choice of channel strategy: direct to consumers (eliminating the intermediary) equals savings of time and money.

As you'll learn in this next section, much of marketing's role in the distribution process is identifying the right channels, creating and managing effective channel partnerships, and ensuring that the channel performance provides value to customers.

Learning Activities

- [Reading: Optimizing Channels](#)
- [Reading: Third-Party Sales](#)
- [Reading: Service Outputs](#)
- Self Check: Managing Distribution Channels

1. <http://adage.com/article/cmo-strategy/geico-overtakes-allstate-2-auto-insurer/291947/> ↩

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