

## 11.2: The Use and Value of Marketing Channels

### Learning Objectives

By the end of this section, you will be able to

- Describe the use of marketing channels.
- Identify the different types of marketing channels.
- Discuss how marketing intermediaries add value to products.

### What Are Marketing Channels?

In addition to identifying ways to create value for consumers, marketers must also decide how to distribute market offerings. In this section, you'll explore the important role that marketing channels play in delivering value to targeted customers.

A marketing channel is a system of people, organizations, and activities that work together to make goods and services available to consumers to purchase. Along the marketing channel, ownership of these goods and services is transferred from one channel member to the next. The goal is to create and deliver value to the final consumer by distributing these goods and services. The final consumer is the end user of a good or service. It includes grocery store shoppers, movie stream viewers, app users, vacation-takers, and more.

### Link to Learning: Distribution

To learn more about how the distribution of products works and the decisions marketers must consider when choosing the right marketing channel, watch the Channels of Distribution in Marketing: 8 Distribution Channels to Consider video.



### Marketing Channels (Distribution Channels) Defined

It's not enough for companies to create, price, and promote products and services that deliver value. A company must also decide where and how consumers can access and purchase the company's market offering. Market offerings can include tangible goods, services, experiences, digital products, ideas, and information. All market offerings require a marketing or distribution channel to reach consumers.

Think of a channel like a stream or a river that carries a market offering to the consumer. Distribution describes how a company makes its market offering accessible for purchase. Local companies that sell to a smaller, more geographically concentrated set of consumers have a more simplified marketing or distribution channel than do global companies.

The film industry provides a great example of the distribution decisions that marketers must make. Before a production company releases a new movie, it must decide which channels are best for distributing it to consumers. In today's market, movie producers

have a slew of distribution options, including Netflix, HBOMax, and YouTube, to name a few. They also have the option of distributing through traditional movie theaters, such as AMC or Regal. Regardless of the marketing channel they pursue, their goal is to distribute their movie to the right customers at the right place and at the right time. Production companies will choose the marketing channel that is most efficient at helping them achieve this goal.

### Marketing Channels for Consumer Products

Companies that use intermediaries to deliver value to consumers have a variety of marketing channel options. There are four major types of intermediaries: agents or brokers, distributors, wholesalers, and retailers (see Figure 11.2).

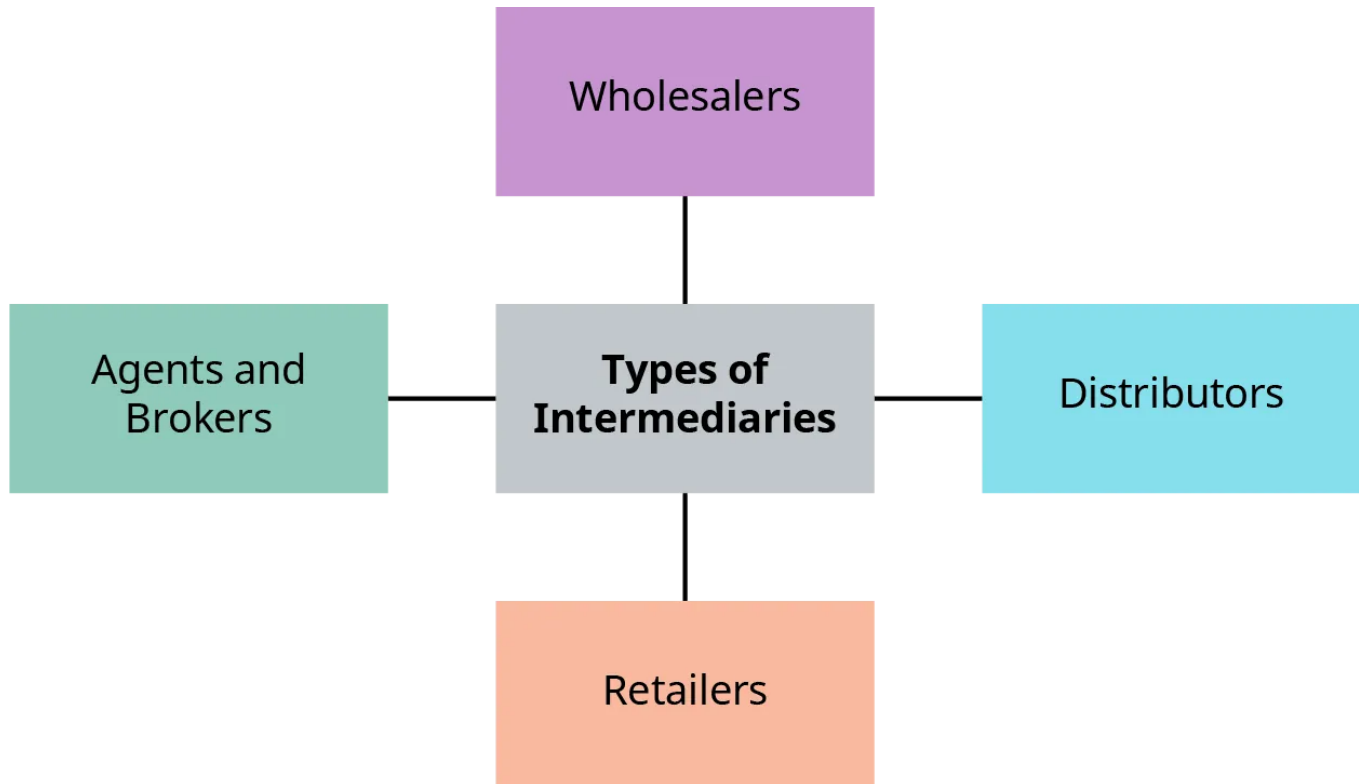


Figure 11.2 Types of Intermediaries (CC BY 4.0; Rice University & OpenStax)

An agent or broker acts as an extension to the manufacturer. While they never take possession of the product or service they represent, they earn a commission or collect a fee for facilitating the transaction between the customer and the manufacturer. Auto insurance agents, for example, may sell Geico or Allstate auto insurance policies to consumers. The agent serves as a representative who answers questions, gathers information, and provides a quote on behalf of the insurance company.

A distributor takes ownership of the product and tends to align itself closely with a manufacturer. For example, Coca-Cola uses distributors who contract to distribute only Coca-Cola products, not PepsiCo products.

Wholesalers are similar to distributors in that they take ownership of products; however, they buy a variety of products in large quantities and bulk-break to distribute an assortment of products to retailers in a quantity aimed at meeting the needs of end users or consumers. Let's examine how the different types of intermediaries depend on one another. AstraZeneca manufactures prescription medications that are made available to consumers through pharmacies such as CVS and Walgreens. Pharmacies are retailers in the marketing channel because they sell a wide variety of consumer products, from toothpaste to milk to medications.

Before AstraZeneca's medications reach retail pharmacies, they are purchased in bulk by wholesalers who partner directly with AstraZeneca. Wholesalers are an integral part of the marketing channel because they package and handle medications and manage the logistics of delivery to retail pharmacies. This creates value for the customer because the right quantity of medications arrives at retail pharmacies safely and in good condition.

The fourth type of intermediary is the retailer. Retailers also take ownership of the product, focusing solely on directly reaching the end-user or customer. They purchase a wide variety of products in smaller amounts that meet the wants and needs of consumers. Retailers include companies such as Rite Aid, Walmart, Target, and Hallmark.

## Intermediary Functions

The intermediaries' role is critical, and they perform a variety of functions (as shown in Table 11.1) that create value for other members in the marketing channel.

Intermediary Functions

Intermediary Functions
Transactional: Buying, selling, and temporary risk-bearing
Logistical: Handling, packing, inventorying, and transporting
Facilitating: Financing and information sharing

Table 11.1 Intermediary Functions

Let's examine the three functions: transactional, logistical, and facilitating.

### Transactional Functions

Intermediaries perform a variety of transactional functions that improve the efficiency of the channel. Transactional functions involve the buying, selling, and risk-bearing that accompany the movement of products along the marketing channel. Companies share the risk of ownership by temporarily possessing products before selling them to another channel member.

Imagine if a small bakery made the best oatmeal raisin cookies and decided to distribute them to consumers using local restaurants in the city. The bakery sells to the restaurant, which then sells to the customer. Temporary risk-sharing, in this scenario, means that, at first, the bakery assumes the risk in the making, storing, and transporting of the cookies, but that risk transfers to the restaurant once the restaurant buys the cookies. The restaurant then assumes ownership and responsibility for selling the cookies, which may involve placing them somewhere customers can see them.

The transactional functions of buying, selling, and risk-bearing help add value in the marketing channel because the system allows for channel members to work together to move a product offering to consumers efficiently and effectively.

### Logistical Functions

In addition to transactional functions, intermediaries also perform logistical functions, which involve handling, packing, inventorying, transporting, warehousing, and ensuring the security of products as they make their way to the customer. In the earlier bakery example, the bakery must ensure the cookies are fresh and tasty to continue supplying restaurants with a product consumers desire. To ensure that cookies meet the wants and needs of customers, both the bakery and the restaurant must ensure the product is handled safely in the marketing channel. That might mean selecting a trucking company that secures the cookies during transport to restaurants and packaging them so that freshness is sealed and quality is maintained.

### Facilitating Functions

In addition to transactional and logistical functions, intermediaries also help facilitate the purchase of products and services. Facilitating functions involve financing and sharing information with members of the marketing channel. Intermediaries may provide financing to one another and to the end-user to help move the product along the channel. Financing involves one channel member allowing another channel member to pay overtime.

In the bakery example, pretend that the restaurant purchases \$12,000 in cookies each year. Instead of the bakery requiring the restaurant to pay for the order in full at the beginning of each year, it allows the restaurant to pay \$1,000 a month over 12 months. This benefits the restaurant because a large amount of capital isn't tied up in its cookie order payment but is spread out over time. While some companies require payment in full, others permit payment installments over time. The payment terms are explicitly stated at the start of the buying and selling relationship between companies.

Intermediaries also share information that can be used to improve marketing decisions. Intermediaries often share key data such as consumer feedback on a product or service, the shopping behavior surrounding that product or service, and historical purchase trends. The facilitating functions that intermediaries perform ultimately help marketing channel members make better distribution decisions and, in some cases, financially support the movement of these products and services in the name of delivering value to customers.

## How Intermediaries Add Value to Customers

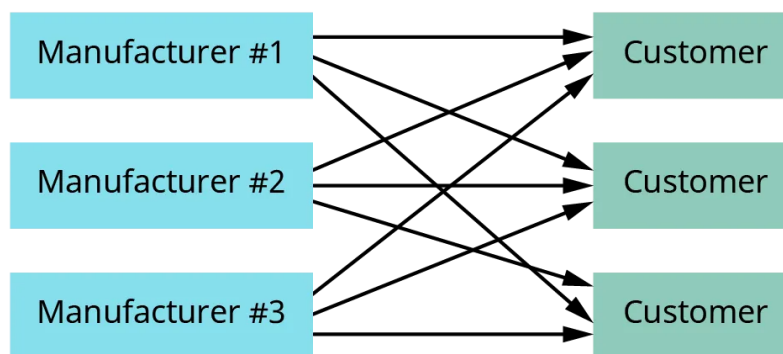
Intermediaries play a critical role in adding value to customers. They specialize in aspects of distribution that manufacturers don't wish to specialize in. They create efficiencies in the marketing channel by reducing transactions, sharing important information among partners, and matching the right quantity of the right product to customer demand. While manufacturers focus on creating value for customers, intermediaries focus on delivering that value.

Dove manufactures millions of units of body wash, bar soap, dry spray antiperspirants, and hair products. In turn, it sells large quantities of these products to wholesalers, who, after buying in bulk, break these large quantities down into smaller assortments that are then sold to retailers. This allows consumers to buy a variety of products in smaller amounts. They can visit a Target, a CVS, or the Amazon website and purchase three bars of soap, one bottle of shampoo, and one bottle of conditioner.

Without intermediaries, customers would need to buy directly from every manufacturer producing the desired product. Imagine grocery shopping without intermediaries. Instead of shopping at one or two grocery retailers for bread, milk, cereal, fruit, and ice cream, shoppers would need to buy from individual manufacturers, making shopping extremely time-consuming and difficult.

Intermediaries add value by reducing the number of transactions between companies and customers. As illustrated in Figure 11.3, there are nine transactions without intermediaries and five transactions using intermediaries. Consider the inefficiencies if companies had to transact directly with individual consumers.

### Without Intermediaries—9 Transactions



### With Intermediaries—5 Transactions

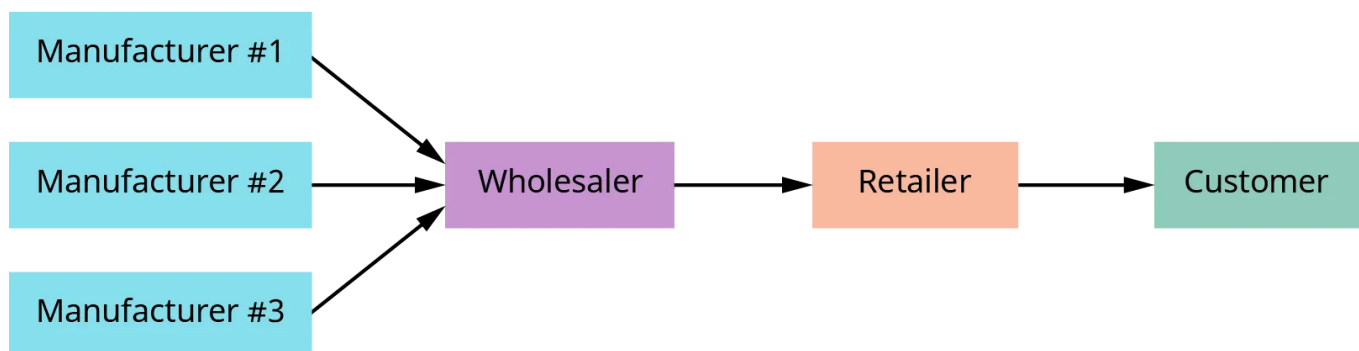


Figure 11.3 How Intermediaries Add Value by Reducing Transactions (CC BY 4.0; Rice University & OpenStax)

## Providing Needed Information about Products and Services

Intermediaries share pertinent information about the products and services that move through the distribution channel. More specifically, intermediaries gather, analyze, and communicate information to other distribution partners to improve the effectiveness and efficiency of the channel. This flow ultimately helps marketers plan and optimize the distribution channel so that consumers get the right products and services at the right place and at the right time.

### Adjusting for Discrepancy of Quantity

As intermediaries move products and services from manufacturers to consumers, they offer the valuable service of accumulating and bulk-breaking. Bulk-breaking is when an intermediary takes a large quantity of a manufacturer's product and breaks it down into smaller units to be distributed to retailers based on consumer demand. Consumers desire to purchase in smaller quantities from retailers. Wholesalers buy in bulk from producers and break the bulk into the right size quantity for retailers, who ultimately meet the needs of consumers who want an assortment of products in small quantities.

Accumulating relates to intermediaries buying in bulk from different manufacturers. When buying in bulk, it is beneficial to the manufacturers because the risk is passed from manufacturers to intermediaries. The United States produces hundreds of millions of bushels of apples, oranges, and peaches each year (Agricultural Marketing Resource Center, 2021). These types of produce require different climates and care and are, therefore, grown in different states across the country. Wholesalers play a critical role in buying an assortment of this product in bulk from these producers and ensure that they are sold to retailers in the right quantity to meet the needs of consumers.

Together, these activities allow intermediaries to offer retailers the right number of products to offer consumers, based on demand.

### Adjusting for Discrepancy of Assortment

Intermediaries also add value by adjusting for the discrepancies in assortment between the manufacturer and the consumer. Discrepancy of assortment is the difference between the variety of products a manufacturer produces and the variety consumers want to purchase. Adjusting for discrepancy of assortment occurs when an intermediary buys from manufacturers and then regroups products into different assortments based on what consumers demand from retailers.

While manufacturers generally produce large quantities of one or a few types of products, consumers demand small quantities of an assortment of products. For example, when visiting the grocery store, consumers demand an array of different products in small quantities. Depending on the size of their household, consumers are generally shopping to meet the needs of one or a few people; therefore, they value the ability to buy a variety of products in smaller quantities. Intermediaries mitigate these differences by matching supply assortment to demand assortment.

### Providing Credit to Customers

Intermediaries also provide credit to customers. Consumers can hardly check out at a cash register without being asked if they want to sign up for a credit card. By extending credit to customers, retailers from Dick's Sporting Goods to furniture retailer Wayfair give customers the chance to spend now and pay over a period of time with interest.

While providing credit to customers is often accompanied by special email offers and direct mail coupon codes, the corresponding interest rates are often high. Nevertheless, providing credit to customers can create brand loyalty and provide retailers with insight into consumer purchases (Irby, 2020).

#### Careers In Marketing: Distribution Management

Distribution managers determine when, where, and how much of a product is distributed. Learn more about the job role and what it entails in this video.



[Michigan State University](#) provides insightful information on this career, including a sample job description, roles and responsibilities, salary, education, and training. When looking at your skill development and what you may need to obtain a job, check out ZipRecruiter's website. It indicates that although several skills are required for this job role, compliance and customer service are the most common. [Read more about the needed skills](#) on the Zip Recruiter website.

### Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

A(n) \_\_\_\_\_ is a group of people, organizations, processes, and activities that work together to deliver products and services to the consumer.

- a. wholesaler
- b. manufacturer
- c. intermediary
- d. marketing channel

2.

A(n) \_\_\_\_\_ is someone who acts as an extension of the manufacturer. While they never take possession of the product or service they represent, they earn a commission or collect a fee for facilitating the transaction between the customer and the manufacturer.

- a. retailer
- b. wholesaler
- c. distributor
- d. agent

3.

Without intermediaries, the number of transactions between the total number of manufacturers and the total number of consumers would \_\_\_\_\_.

- a. decrease
- b. stay the same
- c. increase
- d. decrease temporarily

4.

What do intermediaries do to add value to the marketing channel?

- a. They perform important activities that manufacturers are not experts at performing.
- b. They increase the price of products and services for customers.
- c. They increase the time it takes for products and services to reach consumers.
- d. They make improvements to the product so that it functions better.

5.

As intermediaries move products and services from manufacturers to consumers, what key services do they offer?

- a. Pricing and promoting across geographical areas
- b. Surveying customers to ensure they are satisfied with their product or service experience
- c. Competing with one another to reduce prices for consumers
- d. Accumulating, bulk-breaking, adjusting for assortment discrepancies, and providing financing

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