

11.5: Managing the Distribution Channel

Learning Objectives

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

- Describe how channel members are selected.
- Explain how channel members are managed and motivated.
- Discuss how channel conflict is handled.
- Summarize the metrics used for channel member evaluation.

Selecting Channel Members

After a manufacturer has evaluated its distribution channel options, it now needs to select the right channel members and manage and motivate them to operate effectively and efficiently. In addition, the manufacturer must also address any conflicts that may arise in the marketing channel. A channel member, also known as an intermediary, is a company that works in a network with other companies to help move products from manufacturers to final consumers. Channel members perform a variety of important tasks that collectively create value for the consumer.

The channel members that a company selects depend entirely on the company's evaluation of the channel member alternatives. Manufacturers should examine each channel member's years in business and experience carrying product lines. They should also evaluate each member's reputation and its profitability. PetVivo, maker of biomedical devices for pets, selected Vetcove to distribute a device for pets with osteoporosis. Because PetVivo needed to reach veterinary hospitals and clinics across all 50 states, Vetcove was the right choice because of its experience serving over 13,000 veterinary hospitals and clinics. Its expertise and reputation were attractive characteristics for PetVivo.⁶

Managing and Motivating Channel Members

After channel members have been selected, manufacturers must continuously manage and motivate members to work together to achieve their collective goals. It's similar to a partnership or relationship where companies depend on one another to marshal the product along the marketing channel.

The qualities of an effective channel relationship include collaboration, transparency, and cohesion. When members work together toward a common goal of delivering value to the consumer, the channel is more effective. Companies like L'Oréal and Procter & Gamble must work harmoniously to build mutually beneficial relationships with their distribution network because it's critical to meeting the needs of their consumers. Failure to do so could be detrimental to channel members if customer value declines because of conflict.

In addition to managing relationships, manufacturers must also find ways to reinforce channel member performance. Manufacturers can provide incentives, such as bonuses and other rewards, when channel members meet the manufacturer's goals. In addition to incentives, manufacturers can listen to and support channel members by providing them with helpful sales materials, product samples, and the right messaging.

Evaluating Channel Members

Manufacturers must systematically evaluate channel member performance to ensure that each member is meeting standards. Failure to evaluate performance can lead to inefficiencies in the channel and a decline in customer-perceived value.

Handling Channel Conflict

Sometimes channel members experience conflict during the distribution process. Channel conflict is when companies in the distribution channel have disagreements due to a competitive versus collaborative mindset. For example, a channel member may cause conflict because its focus isn't on creating value but on driving down costs at the customer's expense. This could create conflict in the channel if channel partners and ultimately consumers are impacted by an excessive profit orientation.

Vertical Conflict

A vertical conflict is a conflict that exists between different levels of a vertical channel. When the goals of manufacturers, wholesalers, and retailers aren't aligned in the marketing channel, the customer will ultimately suffer, either by paying more for a product or experiencing a product shortage.

Disintermediation is the process of removing an intermediary from a marketing channel. It occurs when manufacturers have discovered an opportunity to sell directly to end users or final consumers. It can also occur if a manufacturer pivots from its traditional distribution strategy to something completely different. In a classic example, the birth of Apple iTunes essentially put traditional outlets for purchasing music out of business. In another example, traditional movie theaters are experiencing disintermediation as streaming services like Netflix and HBOMax are releasing new films that 10 years ago would have been released only in theaters.

Horizontal Conflict

A horizontal conflict is when there is disagreement among firms at the same level in the marketing channel. For example, Holiday Inn has a variety of locations in New York City. If one Holiday Inn drives its prices down to outcompete its partners, that could cause conflict among the other Holiday Inn locations that perceive it as stealing customers through pricing tactics.

The Use of Metrics in Evaluating Channel Members

To evaluate channel performance, companies use key metrics including inventory turnover rate, order accuracy rate, time to ship, total units in storage, and percentage of on-time shipments. By monitoring these metrics, companies can assess their performance and make adjustments as needed. Figure 11.11 presents key metrics used in evaluating channel member performance. Let's look at each of these more closely.

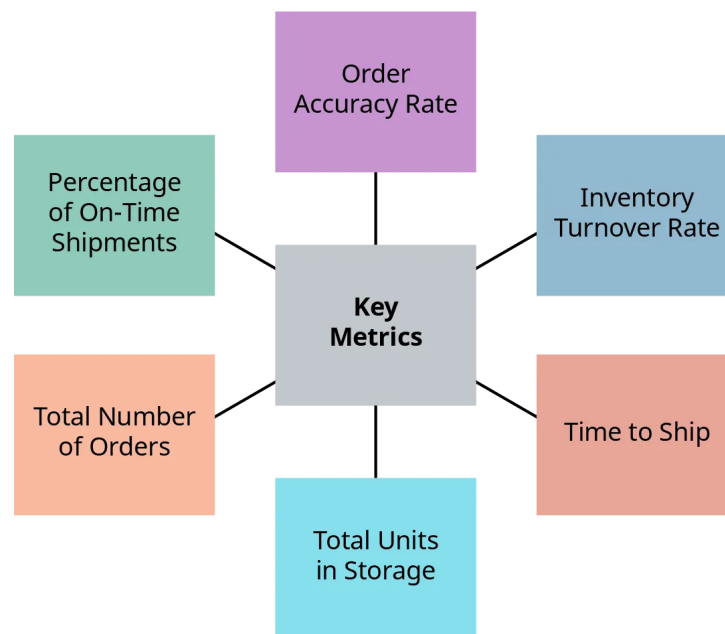


Figure 11.11 Performance Metrics (CC BY 4.0; Rice University & OpenStax)

Inventory turnover rate is a metric that measures how quickly inventory is turned over or sold. Trader Joe's faced a dilemma with the COVID-19 pandemic as consumers stocked up on nonperishable goods like pasta and rice. As consumer demand increased, Trader Joe's supply warehouses were virtually empty as they waited for new inventory. When metrics fall outside what a company considers normal or acceptable, it can then make adjustments, such as introduce new products to fill demand as in the case of Trader Joe's (Strailey, 2020).

Order accuracy rate is an important ecommerce metric. It measures the percentage of orders processed, fulfilled, and shipped to consumers without errors. If you've purchased a pair of sneakers and the wrong size arrives at your home, this constitutes order inaccuracy. These errors can be costly to companies, who then need to process, fulfill, and send another order.

Time to ship, also known as order cycle time, is the time from when a customer places an order to when it reaches them. Amazon has redefined consumer expectations related to shipping. With high expectations that purchased items will arrive quickly, online shoppers say delivery time influences their purchase decision. The time-to-ship metric is a useful tool to measure how quickly a manufacturer can get its products through channel members to consumers.

Total units in storage is a metric used to evaluate warehouse efficiency. This real-time metric changes as items are sold and leave the warehouse and new inventory moves in. This metric also provides insight into warehousing and inventory costs as well as the

number of SKUs, or stock-keeping units, a warehouse is managing at any given time. SKUs are unique numbers assigned to every single product in a warehouse.

The total number of orders is an important metric. The total number of orders is the sum of all orders that a company received in a given period. It provides insight into consumer demand and helps manufacturers to plan accordingly. For seasonal products like winter coats and pumpkin-flavored cookies, the total number of orders may fluctuate throughout the year. Evaluating the total number of orders over time helps manufacturers watch for fluctuations and plan accordingly.

Percentage of on-time shipments is a metric used to evaluate how well a channel member meets its promise of delivering goods on time. This metric is especially important to industries that market perishable goods like meat and dairy. Imagine if the Greek yogurt manufacturer Chobani (see Figure 11.12) worked with an intermediary that only met its delivery date 50 percent of the time. This would directly impact the product's shelf life at the retail level and cost everyone in the channel money.



Figure 11.12 Percentage of on-time shipments is an inventory turnover metric used by companies like Chobani to evaluate a distribution channel's effectiveness at meeting product needs. (credit: "Blood Orange Yogurt" by tbiley/flickr, CC BY 2.0)

Alongside time to ship, measuring average delivery days looks at the average number of days it takes shipping carriers to deliver purchased goods to consumers. This is important to consumers who value the timely delivery of online products. Manufacturers may choose to work with a company like Amazon because of its core competency of fulfilling and delivering products to consumers relatively quickly.

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.

XYZ Appliance is evaluating wholesalers to determine which one would be the right match for its distribution strategy. Which of the following wholesalers would be the best match for XYZ Appliance?

- Wholesaler A is brand new to the large appliance market.
- Wholesaler B has 20 years of experience in wholesaling food products and is the most expensive.
- Wholesaler C has five years of experience in the large appliance market, has a solid reputation, and is profitable.
- Wholesaler D has two years of experience in the small appliance market and is the cheapest.

2.

DirectDocumentaries is a streaming service that provides subscribers with access to documentaries. It currently works with three production companies that it continuously manages to ensure timely production and delivery of new documentaries. Which of the following scenarios is an example of good channel management?

- Production Company A distributes its documentaries through DirectDocumentaries but has also set up an additional domain on the web to distribute directly to viewers. DirectDocumentaries does not know about this additional streaming outlet.
- Production Company B has only been operating for one year. DirectDocumentaries is skeptical about Production Company B's capabilities so shares limited information with it. DirectDocumentaries offers little to no support in Production Company B's development.

- c. Production Company C is a powerhouse, producing 30 to 40 documentaries annually. DirectDocumentaries and Production Company C work closely together to ensure that documentary releases occur at strategic times. They also openly share information about what's working and what's not. They have a common goal in reaching customers with innovative ideas.
- d. Production Company D is rarely happy. It feels that DirectDocumentaries favors other producers and rarely features its productions on a subscriber's homepage. Production Company D has complained several times.

3.

_____ occurs when manufacturers cut out intermediaries and sell directly to end users or final buyers. It can also occur if a manufacturer pivots from its traditional distribution strategy to something completely different.

- a. Horizontal conflict
- b. Vertical conflict
- c. Intermediary conflict
- d. Disintermediation

4.

Which of the following is a key metric that assesses the percentage of orders processed, fulfilled, and shipped to consumers without errors?

- a. Order accuracy rate
- b. Inventory turnover rate
- c. Total number of orders
- d. Average delivery days

5.

_____ measures the length of time from when a customer places an order to when it reaches them.

- a. Average delivery days
- b. Time to ship
- c. Inventory turnover rate
- d. Total number of orders

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