

## 11.3: Types of Marketing Channels

### Learning Objectives

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

- Identify the types of marketing channels that exist for consumer products.
- Describe the types of marketing channels that exist for business/industrial products.
- Discuss vertical, horizontal, multichannel, and omnichannel marketing systems.

### Types of Marketing Channels

When determining the most effective and efficient way to reach consumers with products, companies have two options. They can either sell and distribute their products directly to consumers, a mechanism known as a direct channel, or they can partner with intermediaries who can assist with the distribution, known as an indirect channel.

#### Direct Channel: From Producer to Consumer

In some cases, manufacturers decide that a direct marketing channel makes sense. A direct marketing channel does not use intermediaries but involves the manufacturer distributing its market offering directly to consumers. When consumers purchase pizza from their locally owned and operated pizza shop, the distribution of that pizza passes from the restaurant directly to the consumer. There are no intermediaries between the pizza shop and the customer.

#### Indirect Channels: From Producer to Intermediary to Consumer

An indirect channel involves the utilization of one or more intermediaries to distribute a market offering to consumers. Continuing with our pizza shop example, if a local pizza shop offered pizza that was delicious enough to package, freeze, and sell through local grocery stores in the frozen food aisle, that pizza shop would be adding an indirect channel of distribution.

In some cases, manufacturers or producers sell to retailers without wholesalers or distributors, called the producer-to-retailer-to-consumer channel. A local Ace Hardware, for example, sells fishing lures made by the local scout troop. The troop purchases the supplies necessary to make the lures and then sells them to Ace Hardware, which sells them to customers.

With producer to wholesaler to retailer to consumer—a more complex marketing channel—multiple types of intermediaries are needed. Procter & Gamble, the maker of Crest, Gillette, and Pampers, relies on an intricate network of intermediaries composed of wholesalers and retailers that work interdependently to ensure the right mix and quantity of products reach consumers. Consider all the places a consumer can purchase Procter & Gamble products all over the world.

For some industries, the distribution network is complex, and agents represent the manufacturer in marketing channel negotiations. Health insurance agents, for example, represent major insurance carriers such as Aetna and Blue Cross by providing consumers with information about health plans in their state. In these situations, the agent does not take ownership of the product like other intermediaries but is paid a fee by the insurance carrier.

For companies with a diverse product category that spans the globe, indirect channels of distribution make the most sense. Procter & Gamble sells hundreds of different products across many product categories worldwide. Indirect channels are necessary in such cases. Figure 11.4 illustrates the difference between a direct and indirect channel of distribution for consumer products.

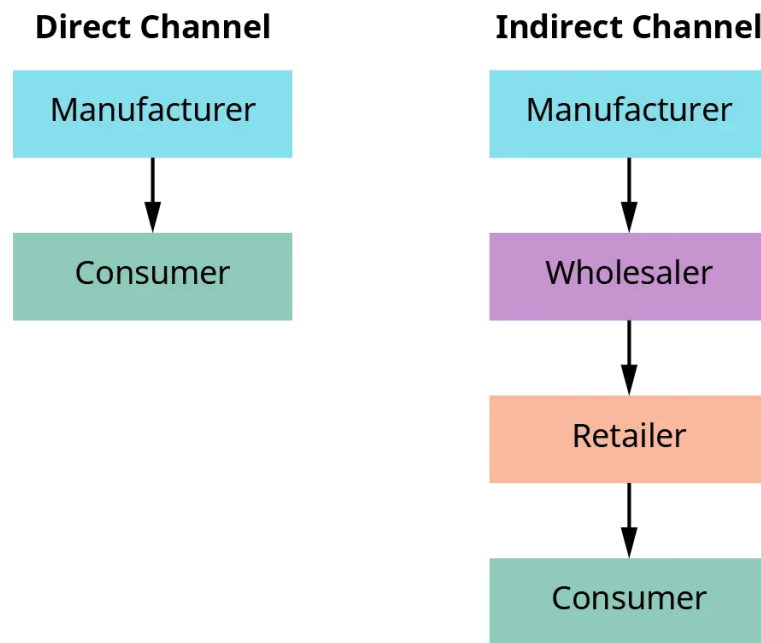


Figure 11.4 Channels of Distribution for Consumer Products (CC BY 4.0; Rice University & OpenStax)

### Marketing Channels for Business/Industrial Products

The business-to-business (B2B) market comprises companies that buy from and sell to other companies. In the B2B space, businesses are not distributing to final consumers but to other businesses. Companies in the B2B market buy, sell, and use materials, resources, and technology from one another to create products, where a business is the final consumer or destination.

Within this market, agents, brokers, distributors, and wholesalers specialize in moving industrial products along the marketing channel to the final business consumer. Figure 11.5 illustrates an example of a distribution channel for business products.



Figure 11.5 Channel of Distribution for Business (CC BY 4.0; Rice University & OpenStax)

#### Direct Channel: From Producer to Business/Industrial User

Much like the business-to-consumer (B2C) space, when a company sells products or services directly to a final consumer or end user, the B2B marketing channel can be direct without intermediaries. The direct channel is typically used when the nature of the product is complex, is expensive, or requires intensive resources to move the product from the manufacturer to the business customer. Airplane manufacturers like Boeing and Airbus produce and sell aircraft directly to airlines like Delta Air Lines and American Airlines, who then offer flights to consumers. Given the expense and complexity of distributing airplanes, the direct channel makes the most sense.

#### Indirect Channels: From Producer to Intermediaries to Business/Industrial User

Industries often rely on the expertise of intermediaries to reach business users with their products and services. The advantages of the indirect channel in the business-to-business (B2B) space are similar to those in the business-to-consumer (B2C) space. For some industries, intermediaries perform important functions along the business marketing channel that they themselves are not experts in. Let's explore the different indirect marketing channels.

With producer to industrial distributor to business/industrial user channels, car manufacturers like Toyota and Honda rely on tens of thousands of different parts, which are manufactured by parts producers. Producers supply the raw materials that manufacturers need to create consumer products. Parts producers such as the car seating and E-Systems engineering company Lear rely on distributors to move their products and technology to automobile manufacturers. Using a distributor allows Lear to focus on its center of excellence—researching, designing, and building innovative vehicle seating technology solutions.

Agents in the B2B space represent companies that produce industrial products and services and serve as an intermediary between the producer and the business user. The agent's value in the B2B space is similar to that in the B2C space. Agents add value by addressing product- or service-related questions and concerns. They typically earn a commission or a fee off the sale of the industrial product.

For more complex industrial marketing channels with global business users, producers work with agents who partner directly with distributors to move products. For example, the automobile industry relies on agents and distributors to reach business users. According to Global Fleet, the world's largest fleet vehicle management company, of the 313 million vehicles driven in the United States and Canada, about 9 million are corporate cars (Bland, 2021). Element Fleet Management, based in Toronto, Ontario, manages corporate vehicle fleets across the United States, Canada, and Mexico. Companies whose operations reach global markets typically rely on a more complex channel involving multiple layers of intermediaries to distribute products and services to business customers.

### Other Marketing Systems

Manufacturers or producers and their intermediary channel partners work in a system to move products and services to consumers. There are four major system types: a vertical marketing system, a horizontal marketing system, a multichannel marketing system, and an omnichannel marketing system. We'll explore each of these systems next.

### Vertical Marketing System

A vertical marketing system (VMS) is one in which companies in the marketing channel work together in a coordinated, collaborative, and customer-centric way. Unlike conventional systems, vertical marketing systems are less concerned with their profit margins and have a laser-like focus on working together to deliver value to consumers.

A VMS is unique in that all members of the marketing channel work as one unified group. Producers, wholesalers, and distributors share the goal of creating and delivering value to consumers. In contrast, a conventional system is one in which each intermediary works as a distinct company, each trying to maximize profits at the expense of other channel members. VMS has grown in popularity over the conventional system because it reduces channel conflicts and increases customer value.

#### Link to Learning: Marketing Systems

To learn more about how marketing systems work, check out these videos:

- What Is a Channel System?



- What Is a Vertical Marketing System?



In Figure 11.6, observe the structural differences between the conventional marketing system (part A) and the vertical marketing system (part B). In the conventional model, the manufacturer sells to wholesalers, who then sell to retailers, who then sell to consumers. In the vertical marketing system, channel members work together as strategic partners to distribute products to consumers.

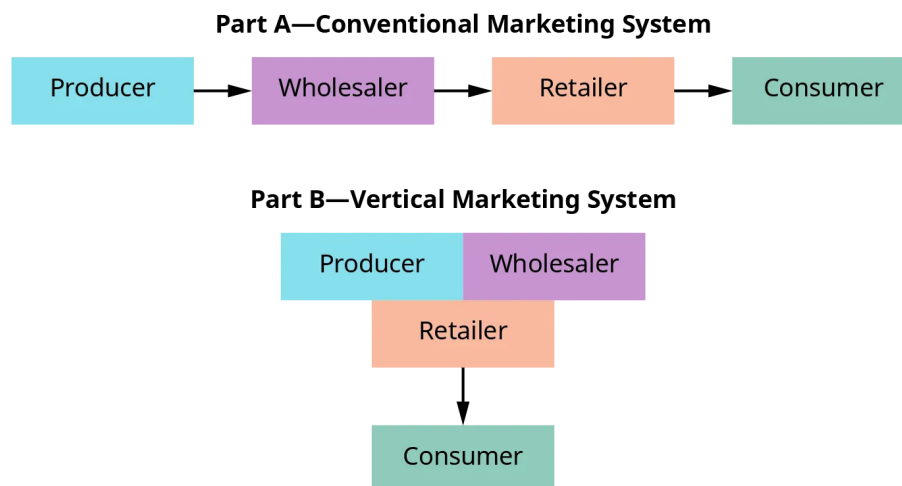


Figure 11.6 Structural Differences between Conventional and Vertical Marketing Systems (CC BY 4.0; Rice University & OpenStax)

There are three types of vertical marketing systems: corporate, administered, and contractual (see Figure 11.7). In a **corporate VMS**, one distribution channel member owns the others. For example, Walmart manufactures its own private-label brand of beauty and health products under the name Equate. Walmart not only controls the manufacturing of products under the brand but also owns and operates the wholesaler that distributes Equate-branded products to Walmart stores all over the world. Walmart reduces risk by owning and thus controlling the various channel members in its VMS. The corporate VMS approach allows for a unified system of creating and delivering customer value.

In an administered VMS, there is no ownership of channel members. However, there is one member who is large and powerful enough to coordinate and manage the distribution activities of other channels members. For example, Procter & Gamble manufactures 65 brands in over 10 product categories. Given its size and power, it requires a high level of cooperation among wholesalers and retailers.

In a contractual VMS, independent companies have joined together by contract for a mutually beneficial purpose. Each company operates independently of the others but integrates its activities to achieve its goals. An example of a contractual VMS is a

franchise organization, such as Chipotle or McDonald's, in which the company creates a contract with a wholesaler to distribute products to the franchisees.

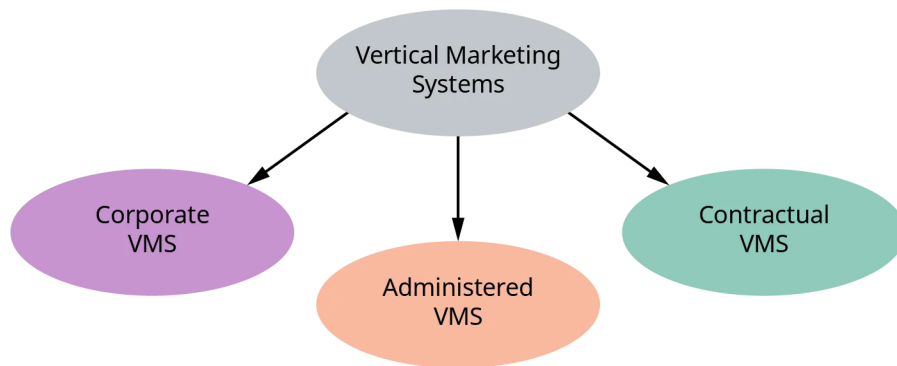


Figure 11.7 Types of Vertical Marketing Systems (CC BY 4.0; Rice University & OpenStax)

### Horizontal Marketing System

In a horizontal marketing system, unrelated companies partner to offer products and services in a shared space. For example, J.Crew and New Balance have partnered together for the last decade to sell a unique line of New Balance–branded sneakers that can only be found on J.Crew's website. In a horizontal system, companies partner to leverage the value they create for customers in a collaborative way.

### Multichannel Marketing System

A multichannel distribution system is where a single company sets up multiple distribution channels to reach customers. For example, Nike has brick-and-mortar stores across major cities. Customers can visit the store, try on shoes and apparel, and make a purchase. In addition to physical stores, Nike also distributes its shoes and apparel through its online store Nike.com, through e-tailers like Amazon.com, and through other brick-and-mortar stores like Kohl's and Foot Locker.

### Omnichannel Marketing System

An omnichannel marketing system is a multichannel approach whereby companies give consumers a variety of ways to purchase, receive, and return products. For example, in addition to purchasing products online and in-store, Dick's Sporting Goods offers customers a variety of options for receiving a product. Consumers can buy online and pick up in-store. They can also buy online from one of the store's kiosks and have it delivered to their home or elsewhere. Omnichannel marketing systems are designed to offer consumers a seamless buying experience, which further creates and delivers value.

#### Link to Learning: Omnichannel

To learn more about an omnichannel marketing system, check out these videos:

- Ted Talk: Omnichannel: Retail (R)evolution



- Teredata: Omni-Channel Retailing



### 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) \_\_\_\_\_ marketing channel does not use intermediaries but rather involves the manufacturer distributing its market offering directly to consumers.

- a. indirect
- b. direct
- c. omnichannel
- d. multichannel

2.

A(n) \_\_\_\_\_ marketing channel partners with intermediaries, including distributors, wholesalers, agents, or retailers to sell and distribute its products.

- a. omnichannel
- b. indirect
- c. multichannel
- d. vertical channel

3.

In the B2B or industrial space, manufacturers or producers sell products and services aimed at reaching a(n) \_\_\_\_\_ end user.

- a. consumer
- b. agent
- c. business
- d. wholesaler

4.

In a(n) \_\_\_\_\_, one member of the distribution channel owns the other members.

- a. administered vertical marketing system
- b. corporate vertical marketing system
- c. horizontal marketing system
- d. multichannel marketing system

5.

What is the difference between multichannel and omnichannel marketing systems?

- a. Multichannel marketing systems are designed primarily for online distribution.
- b. Omnichannel marketing systems are designed primarily for in-store distribution.
- c. Omnichannel marketing systems are more flexible and seamless in how consumers buy and receive products and services.
- d. Multichannel marketing systems are more flexible and seamless in how consumers buy and receive products and services.

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