

Sales and Distribution Management
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Lecture – 38

Channel Systems, Channel Management, Logistics and Marketing Channels: Part 1

[FL] Today we will be beginning with our next topic in our course on Sales and Distribution Management and this is lecture number 38, where we shall be speaking about Channel Systems, Channel Management, Logistics and Marketing Channels. We shall be covering this topic in two parts; part I and part II. Part II shall be covered in lecture number 39.

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Now the different concepts that we are going to cover in this, but in the this lecture and the subsequent lecture are channel formats, marketing channel systems, channel design, steps in channel design.

The channel design process, the selection of channel systems the various evaluation criteria, managing channel partners, channel management and logistics and marketing channels. So, let us begin with our discussion on channel formats.

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Channel Formats

- Today, companies have varied channel choices:
 - Store formats: Organized and unorganized; departmental stores, convenience stores, specialty stores, discount stores etc.
 - Non-store formats: Door-to-door selling, catalogue marketing, telemarketing and home shopping, vending machines, electronic channels, etc.
- Today, companies are using Hybrid Channels
 - Multiple channels; maximize reach and sell effectively and efficiently
 - Hybrid channels are managed by the company itself and/or outsourced

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Now today companies have varied channel choices to opt from, we have discussed in the previous lecture the importance of a distribution channel or of a trade channel. We also call it the marketing channel, and we just saw how companies could either go for you know a zero level or one level or two level or three level channels, and we also spoke about the different channel flows, you know we have forward flows and backward flows and both ways as well as reverse flows.

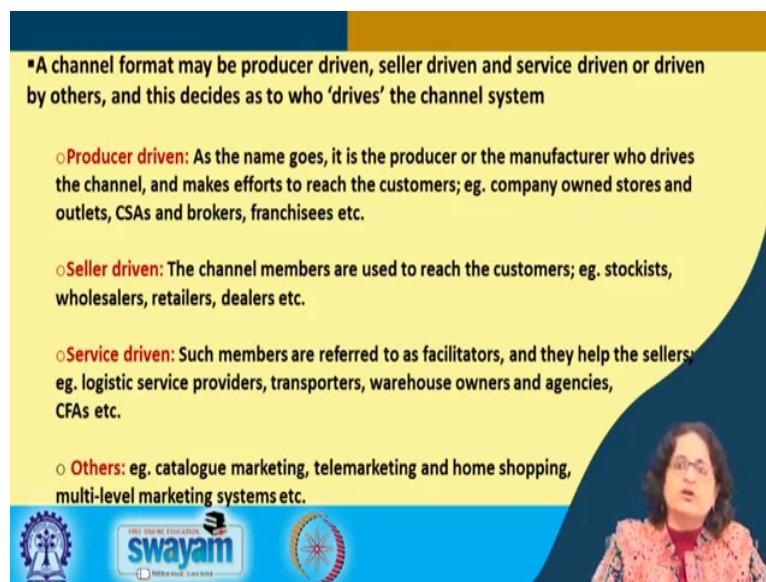
Now continuing with the same when we talk of channel choices, we speak we, are actually referring to it in terms of store formats and known store formats. Companies today can opt for either the physical stores or the brick and mortar stores which could either be the organized formats or the unorganized kirana stores, and we have different kinds of formats like the departmental stores, convenience stores, specialty stores, discount stores etcetera. We also have non store formats which is you know, which does not typically relate through the traditional brick and mortar but is more to do with direct marketing or direct selling or internet marketing.

So we have door to door selling, we have catalog marketing, we have telemarketing, we have home shopping, vending machines and also the E-channels or the electronic channels through it consumers have access to goods and services produced by an organization. Companies today use hybrid channels and what we see is, varying channel formats way they use more

than one channel, we have multiple channels. We also refer to them as hybrid channels which are managed by the company itself or may be out sourced.

And the objective of such multiple channels is basically to maximize the reach of the product, of the services to you know to the customers maximally. So, as so that the product and services made available to as many as possible customers, all over the country, all over the world and the objective is to maximize reach and sell effectively and efficiently or the underlying factor here is that whatever is done, has to be done optimally and there has to be, you know always the cost factor that needs to be taken into account so, that you know custom, the marketer can reach the customer you know with minimum with, with reduced costs and can sell effectively and efficiently.

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*A channel format may be producer driven, seller driven and service driven or driven by others, and this decides as to who 'drives' the channel system

- **Producer driven:** As the name goes, it is the producer or the manufacturer who drives the channel, and makes efforts to reach the customers; eg. company owned stores and outlets, CSAs and brokers, franchisees etc.
- **Seller driven:** The channel members are used to reach the customers; eg. stockists, wholesalers, retailers, dealers etc.
- **Service driven:** Such members are referred to as facilitators, and they help the sellers; eg. logistic service providers, transporters, warehouse owners and agencies, CFAs etc.
- **Others:** eg. catalogue marketing, telemarketing and home shopping, multi-level marketing systems etc.

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Now, a channel format may be a producer driven format or a seller driven or a service driven or it could be driven by others, and this decides as to who drives the channel system. When we talk of a producer driven channel, as the name goes it is the producer or the manufacturer who drives the channel and who acts as the channel captain, and he makes all efforts to reach the customer on his own. For example, we have company owns retail stores and outlets; we have the CSAs and the brokers and the franchises.

So, these are all you know channels which are driven by the producer and we refer to them as producer driven channels, where it is the producer or the manufacturer who drives the channel and acts as the channel captain of. Channel formats will also be seller driven, the

channel members are used to reach the customers here and these channel members you know are the traditional channel members; like the stockiest, the wholesalers, the retailers, the dealers away where we see that it is the channel or the trade channel, is actually you know maintained and managed to buy the wholesalers or the retailers or the dealers, who play a major role to ensure that the good or service delivered to the end customer, whether it is with respect to B to B or B to C.

And it reaches the customers from the manufacturers end with major effort being put in by the sellers or by the channel members, be the stockists or the distributors or the wholesalers or the retailers or the dealers etcetera. Channel formats may also be service driven, where we refer to such members that has facilitators and they help the sellers in ensuring that the product reaches the end customer at the at the right time at the right place.

And the people who constitute the service driven format are the logistic service providers. Typically today we have the third party logistics which we hear of very often. There are transporters, there are warehouse owners and agencies, the CFAs etcetera who all constitute you know this the service driven format, and who are facilitators, who ensure that the end product reaches the customer they help the sellers and the resellers. We also have other partners who other entities, who may be driving the channel and these you know for example, through catalog marketing or through telemarketing, home shopping, multi level marketing systems multi level marketing systems you also refer to it as network selling.

So, these are networks and these are formats which fall under the category of others. So, a channel may be either driven by the producer or by the seller or by the service providers and the facilitators or by other entities.

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The slide features a yellow background with a dark blue curved shape on the right side. At the top, there is a dark blue and gold horizontal bar. The title 'Marketing Channel Systems' is in blue. Below it, a bullet point states 'There are three types of marketing channel systems:'. Three sub-points follow: 'Vertical Marketing System', 'Horizontal Marketing System', and 'Multi-Channel Marketing System', each preceded by a red circle. At the bottom, there are logos for Swayam and a presenter's video feed. The text '(Contd.)' is visible in the bottom right corner of the slide area.

Now, coming to the next topic under discussion which is marketing channel systems. Now there are three types of marketing channel systems; the vertical marketing system, the horizontal marketing system and the multi-channel marketing system. The vertical marketing system is also referred to as the VMS and the horizontal marketing system is referred to as the HMS and if we talk about vertical marketing system or horizontal marketing system or the multi channel marketing system these are newer formats which have emerged in the past few decades.

Earlier the producer, the manufacturer; that is the, so the manufacturer, the wholesaler, the retailer they all acted as separate entities, and each one of them acted independently leading to you know lot of duplication of activities also certain functions being performed by channel members who were not core competent in that or in those functions.

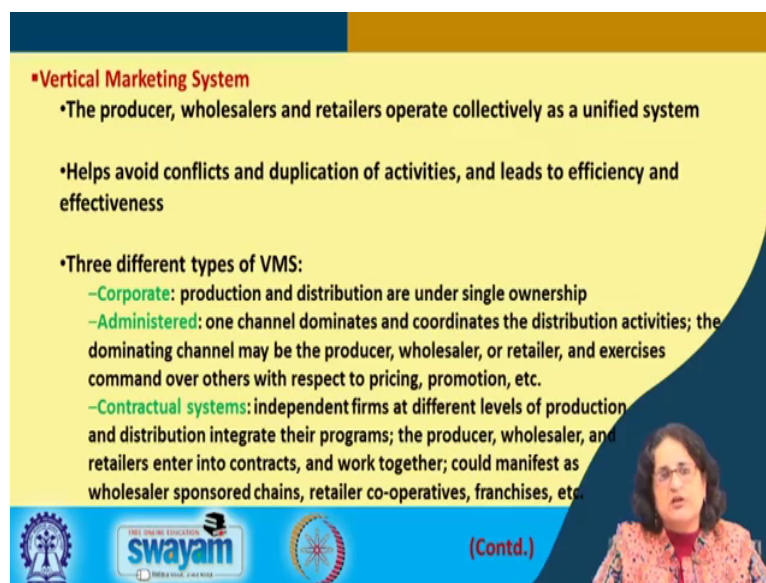
And so they would it was realized that if the three, sorry if the channel entities or the channel partners acted as a unified system for example, if the three entities here; the company, the wholesaler, the retailer acted as a unified system they could benefit much more, maybe no, because they could be, they would be able to utilize their core competencies in doing what they are supposed to do, and where their core competent and help each other you know reach the customer most effectively and efficiently.

So, it was realized that instead of operating as independent entities, the wholesaler, the retailer and the manufacturer, they must act you know unified manner and this would lead to

efficiency and effectiveness of distribution, you know and it would also lead to better services being provided to the customer who would be able to get the right product at the right time at the right place and in the right quantity.

And this led to you know the birth of the vertical marketing system where it was realized that it is more important to be more beneficial if the different entities or different channel players for example, the wholesaler, the retailer and a manufacturer acted in a unified manner so that led to the birth of the vertical marketing system.

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Vertical Marketing System

- The producer, wholesalers and retailers operate collectively as a unified system
- Helps avoid conflicts and duplication of activities, and leads to efficiency and effectiveness
- Three different types of VMS:
 - Corporate: production and distribution are under single ownership
 - Administered: one channel dominates and coordinates the distribution activities; the dominating channel may be the producer, wholesaler, or retailer, and exercises command over others with respect to pricing, promotion, etc.
 - Contractual systems: independent firms at different levels of production and distribution integrate their programs; the producer, wholesaler, and retailers enter into contracts, and work together; could manifest as wholesaler sponsored chains, retailer co-operatives, franchises, etc.

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Now, in the vertical marketing system as opposed to the traditional marketing system, the producer or the manufacturer, the wholesaler and the retailers operate collectively, as a unified body as a unified system. As I just said traditionally they operated as different entities and they operated just as distinct entities who are more majorly concerned with their own goals and objectives which were typically in terms of profit maximization and cost reduction.

However, it was realized that they all, they often got to do certain activities or certain tasks which were duplication of activities, they were they were doing activities where they were less efficient and and so it was realized that it would be better if they acted in a unified fashion which led to the birth or the vertical marketing system.

Now in the vertical marketing system that producer wholesaler and retailer operate collectively and this helps avoid conflicts between them, it helps avoid you know conflict of

interests, it helps avoid conflict with respect to goals, with respect to roles and domain. And it also lately you know leads to you know non duplication of activities, leading to efficiency and effectiveness of the distribution channel.

Now, the three types of VMS or vertical marketing systems; the corporate, the administer and the contractual. In the corporate VMS the production and distribution are under single ownership, which means that the producer not only produces, but he also distributes and sells. For example, oil companies where exploration is done by them, processing is done by them and many of them have their own petrol stations as well. So, this is a kind of a corporate VMS. The second is an administered VMS, where one channel dominates and coordinates the distribution activities. The dominant dominating body or the dominating channel here may be a, channel member here may be the producer, he may be the wholesaler or the retailer and he commands over the others with respect to product with respect to assortment, with respect to pricing, with respect to promotions etcetera.

We see here that you know for you know strong corporate brands can exercise control over wholesalers and retailers with respect to pricing, with respect to promotion and the smaller retailers about down to the wishes of the reputed companies and their brands, because they would want the reputed brand to be a part of their assortment in the store. So, this is a kind of a administered VMS. The third is a contractual system where independent firms at different levels of production and distribution integrate their programs. The producer, the wholesaler, the retailer they enter into contracts with each other and work together. This could manifest in the form of franchises or retailer cooperatives or wholesale sponsored chains. So, this is what we mean by the vertical marketing system.

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Horizontal Marketing System

- Companies into unrelated businesses come together and take advantage of an existing marketing opportunity; this involves sharing of resources
- Eg., coffee shops in libraries; departmental and convenience stores at petrol stations

Multi-channel Marketing System

- In this case, a combination of channels is used by the companies to reach out to customers; it is used in those situations where a company deals in a number unrelated products, caters to different market segments with same products, customers are geographically scattered etc.
- Eg., both B2C and B2B; leads to marketing and distribution efficiency and effectiveness

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The next is the horizontal marketing system where companies in to unrelated businesses come together and take advantage of an existing marketing opportunity, and this would mean that the two companies which are absolutely into unrelated businesses decide to share the resources and decide to work together. For example, we often find coffee shops in libraries and reading rooms, we find departmental stores and convenience stores at petrol stations.

There is absolutely no connection between a coffee shop and a book, you know and a library or a reading room, or there is no connect between you know departmental store and a petrol station yet they work, decide to work together, because person who actually decides to go to fill petrol in his car at night at a petrol station, would also get down and buy breads and you know cereal for breakfast.

So, in this way not only does the petrol station get business, but also the departmental store you know will be able to gain some business. Similarly a person may think that he has to buy some you know a soap or a toothpaste for the next morning, and as he decides to go to that departmental store, he may also decide to get his petrol filled which he would not have to do the next day, you know a during a good morning time when there is huge amount of rush.

So, in this way both whether the customer first goes to, has a has a prioritized and you know want for petrol or for you know toiletries and cosmetics, either way both of them would benefit out of this you know opportunity. So, this is what we mean by the horizontal marketing system. We also have something called the multi-channel marketing system, where

a combination of channels is used by companies to reach out to the customers. Generally used in situations where company deals with a large number of unrelated products it caters to different kinds of markets and segments and it caters to different market segments with the same products also and customers are you know geographically scattered.

For example, you know companies deal with both B to B and B to C and you know a through their different channels and through their different channel formats and this leads to you know marketing and distribution efficiency and effectiveness. So, in the case of multi-channel marketing system, a combination of channels is used by companies to reach out to customers. The same company may be dealing with B to B, the same company may be dealing with B to C with their broad product assortment which will be related or unrelated products and it caters to different market segments and where with the same product also. And so especially in the case where customers are geographically scattered multi-channel marketing systems really helped.

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The slide is titled "Channel Design" in blue text. Below the title, it says "Factors affecting channel design:" in red. There are six bullet points listed: "Product assortment and nature of the product", "Width and depth of the market", "Long term commitments to channel partners", "Customer service levels", "Affordability", and "Channel control requirements of the company and its products". At the bottom left, there are logos for "swayam" and "MHRD". At the bottom right, there is a small video inset of a woman speaking and the text "(Contd.)".

- Product assortment and nature of the product
- Width and depth of the market
- Long term commitments to channel partners
- Customer service levels
- Affordability
- Channel control requirements of the company and its products

Now, let us come to the next topic which is channel design. Now what are the factors which affect the channel design; one is with respect to the product assortment and the nature of the product, the market coverage in terms of width and depth, long term commitments to channel partners, customer service levels, affordability and channel control requirements of the company and the and its products. So, let us discuss each one of these subsequently.

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- **Product assortment and nature of the product**
 - All products cannot be transferred through the same channel
 - Channels also vary with respect to offering services to the customers, time and speed as well
- **Width and depth of the market**
 - Channels vary with respect to their ability to reach the target segment(s)
 - The internet has been realized as a means for reaching a large number of customers today
- **Long term commitments of channel partners**
 - Terms of conditions between channel partners vary
 - A long term orientation creates win-win situation for both

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Now, one of the major factors which affect the choice of a channel is product assortment and nature of the product. Not all products can be sold via the same channel. Channels also vary with respect to offering service to customers, whether it is with respect to time and speed also. So, here we see the product assortment and the nature of the product has a big in, is a major factor to determine the design of a channel. Similarly the depth and width of the market.

Channels vary with respect to reaching with respect to their ability to reach the audience or the target segment, and internet today has been realized as a means for reaching the large number of customer, as a means for reaching a large number of customers today all across the country, all across the world. Long term commitments of channel partners is also another factor which affects channel design choice, and what we is important here is in terms of the terms and conditions between channel partners which can vary. Also the long term orientation is something which creates a win-win situation for both.

So, companies always look what channel partners, which who will be able to provide you know a long term commitment so that it can be a win-win situation for both the company and its channel partners.

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•Customer service levels
•Channels vary with respect to their capacity to offer services to customer; the more the touch points, the easier for consumers to reach the sellers

•Affordability
•The channel costs should not inflate the overall cost of the product

•Channel control requirements of the company and its products
•Might be outsourced or owned, depending upon the needs and requirements of the company

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Customer service levels; channels also vary with respect to their capacity to offer services to customers. The more the touch points the easier for consumers to reach the sellers. So, this is again a vital factor. Affordability of the channel with reference to channel costs has to be taken into account, because the channel cost should not inflate the overall cost of the product.

So, it has to be kept in mind that you know the benefits that upon derives through a channel are actually much more than the cost that would be incurred to, you know to manage the channel. So, the channel costs have to be kept in mind and this is again a major factor which will derive decision, which will which will affect a decision for a channel design. Channel control requirements of the company and its products also are a major factor which affect channel design. Channel activities with reference to the distribution channel might be out sourced or owned, depending upon the needs and requirements of the organization. So, all of these are factors which affect the channel design choice by an organization

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Steps in Channel Design
There are a series of steps which are involved in designing of channels:

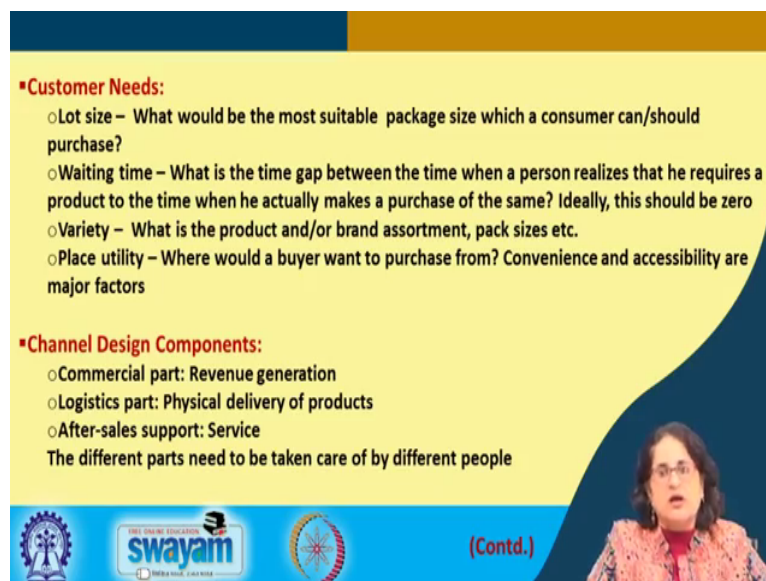
- Decide on customer needs
- Specify channel goals and objectives
- Identify channel systems which help achieve goal and objectives
- Calculate probable costs of operating the channel system
- Compare and evaluate available alternatives
- Finalize the 'best' channel alternative

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Now what are the steps in channel design? There are series of steps which are involved in designing of channels; first of which involves deciding on customer needs, specifying goals and objectives of the channel, identifying channel mem systems which will help achieve goals and objectives, calculating probable costs of operating a channel system, compelling and evaluating the available alternatives and then finalizing the best channel alternative. So, let us begin with discussion on some of the issues which play a very important role in channel design.

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Customer Needs:

- Lot size – What would be the most suitable package size which a consumer can/should purchase?
- Waiting time – What is the time gap between the time when a person realizes that he requires a product to the time when he actually makes a purchase of the same? Ideally, this should be zero
- Variety – What is the product and/or brand assortment, pack sizes etc.
- Place utility – Where would a buyer want to purchase from? Convenience and accessibility are major factors

Channel Design Components:

- Commercial part: Revenue generation
- Logistics part: Physical delivery of products
- After-sales support: Service

The different parts need to be taken care of by different people

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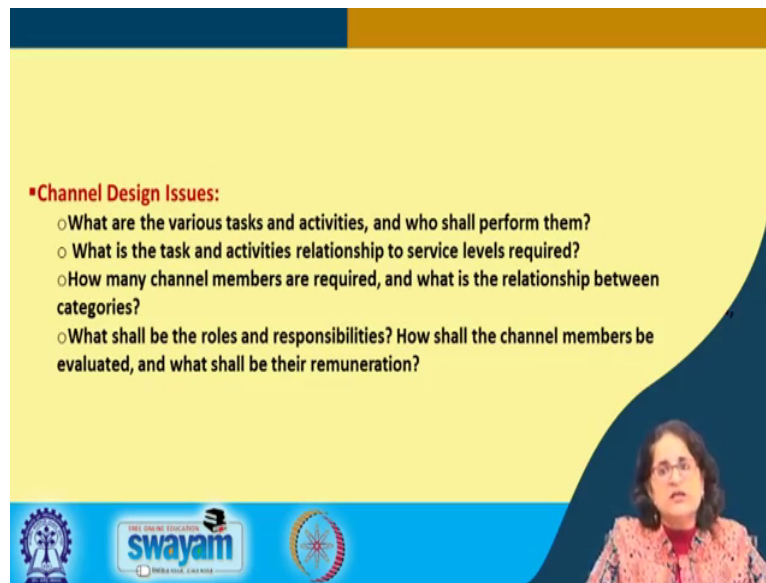
Customer needs; now what do we mean by customer needs? Customer needs here refer to you know the lot size which a customer would prefer buying or the waiting time or the kind of product assortment and variety that he needs and the kind of place utility that he would require. Now when we talk of a lot size, lot size here is you know refers to the most suitable packet size which a consumer can or should purchase at a particular point. The waiting time refers to the time gap between the time when a person realizes that he requires a product to the time when he actually makes a purchase of the same. So, ideally the waiting time for a customer must be zero.

Variety refers to the kind of product and brand assortment, the packings packet sizes etcetera. And the place utility here refers to the place where a buyer would want to purchase from. Convenience and accessibility are major factors here, which play a very important role you know as far as the customers decision to buy from an outlet is concerned. So, accessibility and convenience are two factors which each and every customer your would keep in mind, and this is something which a marketer or an organization must also pay attention to.

The second thing which we could, which we will discuss here is the channel design components. Talking about the channel design components there is a commercial part and the logistic part. The commercial part here refers to the revenue generation and the logistic part refers to the physical delivery of the product to the end customer.

After sales support in the form of service is extremely essential, extremely important, because subsequent business from a customer depends upon the after sales support and after sales experience he has from a company and from a product. The different parts need to be taken care of by different people in an organization. So, there has to be a team which takes care of the sales and the commercial part, there has to be a team in the organization which takes place of, it takes care of the logistics, there is to be a team which takes care of the after sales support, and so the channel design components must ensure that there is a commercial part, a logistics part and an after sales support.

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Channel Design Issues:

- What are the various tasks and activities, and who shall perform them?
- What is the task and activities relationship to service levels required?
- How many channel members are required, and what is the relationship between categories?
- What shall be the roles and responsibilities? How shall the channel members be evaluated, and what shall be their remuneration?

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The third is with respect to channel design issues which would mean identifying what are the various tasks and activity and who shall perform them, what is the tasks and activities relationship to the service levels required, how many channel members are required and what is the relationship between different categories of channel members which is with respect to you know the manufacturer, the wholesaler, the retailer, the stockist etcetera, and what shall be the roles and responsibilities, how shall the channel members be evaluated and what shall be their remuneration.

So, these are certain issues which need, which need to be taken care of when companies decide on their channel design.

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Channel Design Process

Four stages:

- Segmentation
- Positioning
- Focus
- Development

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Now, coming to the channel design process. There are four different stages of the channel design process, we segmentation, positioning, focus and development.

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•Segmentation

- Segmentation is all about identifying clusters of customers that are homogenous within, and heterogeneous outside; they share similar needs and wants, and must be served by different kinds of channel members, specialized to cater to distinct segments
- This helps sales managers in selecting appropriate channel partners for serving the segments

•Positioning

- At this stage, channel elements are identified and positioned to service the customers by creating a best-fit with customers' needs
- Decisions with respect to the type of channels and number of intermediaries are taken
- By positioning channels in right manner, sales managers attract customers towards purchase; an ideal fit helps organizations in a big way

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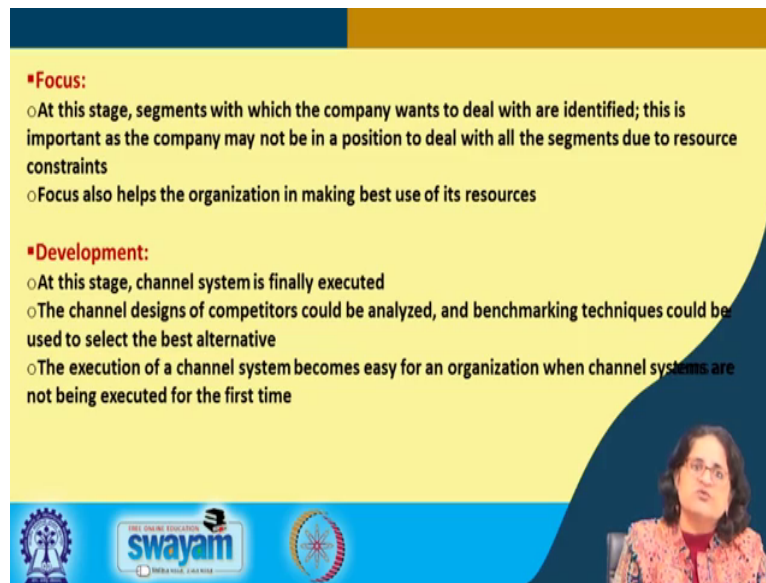
Now, first is segmentation which is all about identifying clusters of customers who are homogenous within and heterogeneous outside. They share similar needs warrants preferences and must be survey served by different kinds of channel members who are specialized to cater to distinct segments.

So, it was very important that companies identify their segments and then have a sales team and have sales personnel who are specialized in dealing with distinct segments. This would help the sales manager in selecting you know appropriate a sales teams and sand sale and channel members. It would also help the sales managers in selecting the right kind of dealers, distributors, stockists and other channel partners, who would be able to serve the distinct segments in the most effective and efficient manner. So, segmentation helps the sales managers in selecting channel partners for serving the different segments.

The second is positioning. Now at this stage channel elements are identified and positioned to service the customers by creating a best fit with the customers needs. The channel elements and their skills, abilities, experience, infrastructure etcetera is taken into account, and the customer service levels, customers requirements etcetera art also you know taken into account, and a best fit is it is attempted at, so that you know the channel elements who are identified and positioned to service the customers, a best fit with the needs and requirements of the customers. So, decisions with respect to the type of channels, number of intermediaries are taken, both with respect to the type of channels and the number of intermediaries. Also by positioning channels in the right manner, sales managers can attract customers towards purchase.

And ideal fit to service in best possible ways by taking decisions with respect to number of channels, the type of channels helps the organizations in the big way. So, an ideal fits to service in best possible ways by taking decisions; like the number of channels, and the type of channels can help organizations in major ways.

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Focus:

- At this stage, segments with which the company wants to deal with are identified; this is important as the company may not be in a position to deal with all the segments due to resource constraints
- Focus also helps the organization in making best use of its resources

Development:

- At this stage, channel system is finally executed
- The channel designs of competitors could be analyzed, and benchmarking techniques could be used to select the best alternative
- The execution of a channel system becomes easy for an organization when channel systems are not being executed for the first time

Logos at the bottom: Swayam, and other institutional logos.

Focus, and the third stage here is focused, at this stage segments with which the company wants to deal with are identified and this is very important, because a company may not be able to deal with all the segments due to constraints with respect to manpower or with respect to finances.

So, a keeping in mind the different segments, the company would decide as to which segment it would like to cater to, and this is particularly important when companies are not able to deal with all the segments due to physical constraints, be it physical, financial or be it manpower. Focus also helps organizations in making best use of its resources. Finally, we have development, where the channel system is finally executed, the channel designs of competitor should could should could be analyzed and benchmarking techniques could be used to select the best channel system and the best channel alternative and the execution of the channel system becomes easy for a company when the channel systems are already exist and are being modified. Of course, when they are going to be executed for the same first time it is difficult. So, the execution of a channel becomes easy for an organization when channel systems are not be executive for the first time.

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**Selection of Channel Systems:
Evaluation Criteria**

- Channel alternatives are evaluated, and the channel design is finalized after deciding upon the segments to be served and the service levels required
- The various criteria to be taken into account while evaluating major channel alternatives include:
 - Cost
 - Ability to manage and control
 - Adaptability
 - Volume and range to be handled

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The next we come to evaluation of channel systems and the criteria which are used to evaluate channel systems. Channel alternatives are evaluated and channel design is finalized after deciding upon the kind of segments to be served and the customer service levels required. The various criteria that need to be taken into account while evaluating the different channel alternatives and channel systems are cost, ability to manage and control, adaptability and the volume and range of products to be handled.

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•Cost:

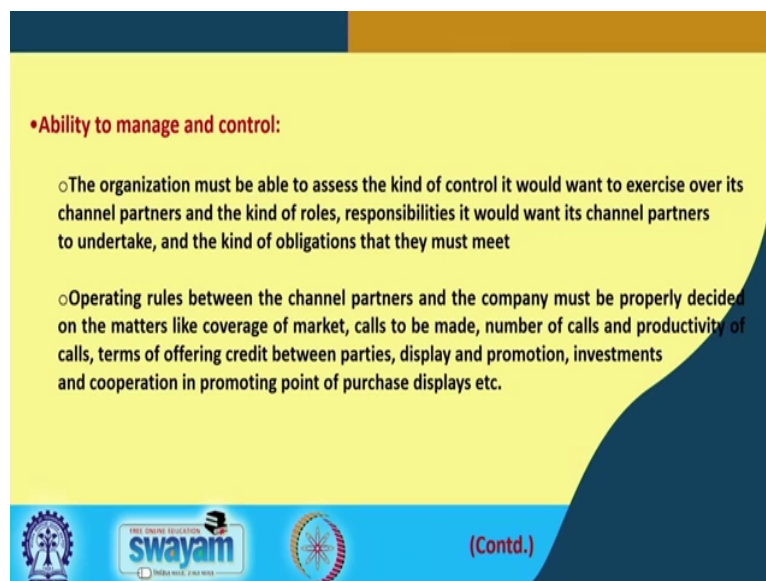
- An organization must be able to determine if the present sales force is capable of handling the distribution of products or not. In case it can be done with a little expansion, companies must opt for this
- Otherwise other options must be considered but the needs of the customers must be taken into consideration
- Every channel comes with a cost, it must be made sure that sales and customer service benefits must exceed costs of the channel
- A channel which is least costly must be selected

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So, first let us discuss the cost factor. An organization must be able to determine if the current sales force which it has, will be capable of handling the distribution of products or not. In case it can be done by the company itself with little expansion, companies must opt for this; otherwise companies must look to other options and then customer needs and service levels must be taken into consideration. It is noteworthy that every channel comes with a cost and it must be ensured that sales and customer service benefits, it must exceed the cost of managing a channel. A channel which is the least costly must be selected.

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•Ability to manage and control:

- The organization must be able to assess the kind of control it would want to exercise over its channel partners and the kind of roles, responsibilities it would want its channel partners to undertake, and the kind of obligations that they must meet
- Operating rules between the channel partners and the company must be properly decided on the matters like coverage of market, calls to be made, number of calls and productivity of calls, terms of offering credit between parties, display and promotion, investments and cooperation in promoting point of purchase displays etc.

At the bottom of the slide, there are logos for 'swayam' (Free Online Education) and 'INDIA RISE, EDUCATION' (with the text 'INDIA RISE, EDUCATION' below it), and the text '(Contd.)' is visible on the right side.

Second the ability to manage and control. The organization must be able to assess the kind of control that it would want to exercise over this channel partners and the kind of roles responsibilities it would want to channel patters to perform, and the kind of obligations that they must meet. Operating rules with respect to you know coverage of the market, calls to be made, a number of calls and productivity of calls, terms of offering credit between parties, displays, promotions, investments and cooperation, in promoting point of purchase display etcetera must be clearly specified and the channel partners must be adequate. It must be properly informed about all of these rules and all of the policies and procedures, so that you know control can be exercised in a more efficient and effective manner.

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•Adaptability:

- The partnering channel must not only supplement the present sales of the company but also work towards growing future sales as well
- The channel members must be ready to adapt to the changing market conditions, and must adopt proper measures with respect to introduction of new products, dumping of old products by the company, addition of new territories, pushing sales when prices are increased, offering additional services for customer retention, handling customer complaints, and dealing with customers in cases of price changes

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The slide features a yellow background with a blue and orange header. At the bottom, there are logos for 'swayam' and 'THE ONLINE EDUCATION' along with a small image of a woman speaking.

The third is adaptability. The partnering channel must not only you know help the company in managing the present sales and help the company you know with the current product range and with the current forecast, but it must also work towards growing future sales as well.

So, channel members must be ready to adapt to new change, new environmental conditions, whether it is with respect to changing marketing conditions and they must adopt proper measures with respect to introduction of new products, dumping of old products by the organization, addition of new territories, new segments, pushing sales when prices are increased, offering additional services for customer retention, handling customer complaints and dealing with customers in case of price changes.

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•Volume and range to be handled:

- The channel must have enough resources and infrastructure base to support the company when the volume of sales increases
- This is crucial particularly when a company is planning to expand its business
- The channel partners must supplement the efforts of the company in reaching wider audience with new product lines

•Others:

- Other factors relate to market requirements (customer service expectations, competitors), product distinctiveness (physical characteristics), company characteristics (size, market share, nature of products handled and product mix, financial status and resources), channel members' abilities and infrastructure, environmental factors etc.

The next is the volume and range to be handled. So, here what we are referring to is you know that the company and the channel members must have enough resources, and infrastructure base to support the company when the volume of sales increases. This is very important when the company is planning to expand its businesses, whether it is with respect to new product launch or entering into new territories. So, the channel partners must supplement the efforts of the company in reaching a wider audience, a wider segment with new products.

So, the other factors also which must be taken into consideration, factors which relate to market requirements, be it customer service expectations or competitors, or product distinctiveness which with, which relates to physical characteristics of the product, or company characteristics; like the size of the company, its market share, or the nature of product handled and the product makes the financial status and resources, or it could be also the channel members, abilities and infrastructure, environmental factors etcetera which need to be taken care off while evaluating channel alternatives and deciding on particular channel system.

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Managing Channel Partners

SELECTING CHANNEL PARTNERS:

- It is highly important to select the right number and right kind of channel members: adequacy (quantity) and appropriateness (quality)
- How can companies find suitable channel partners?
 - **Through sales force team:** Company sales force work in distinct sales territories in the field, and they can identify and look for people who are willing to work as channel partners with the company
 - **Newspaper ads/Press advertising:** Advertisements must contain relevant details in terms of expectations from channel partners, roles and responsibilities, infra-structure and resources required as well as financial status; the offer should be lucrative so as to attract distributors with excellent past records
 - **Existing channel members:** References from existing channel partners can also be used; this is a less expensive method, as back ground check can be easily done
 - **Competitor's channel partners:** These may be used if the company or the competitor are not particular about exclusive distribution

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Next we come to managing channel partners. Now when we talk of you know managing channel partners, we actually refer to selecting them, training them, motivating them and evaluating them. So, its to start with selecting channel partners, its highly important to select the right number in the right kind of channel members, issues with respect to adequacy or quantity; that is the number is an important issue. The other important part is the appropriateness or the quality or the competence of the channel members.

So, how can organizations find suitable channel partners? One is through their own sales force team, where the company sales force works in distinct sales territories in the field and they can identify and look for people who would be willing to work as channel partners with the company. Companies could also advertise in newspapers and in the press. So, advertisements must contain relevant details in terms of the expectations from channel members, their roles and responsibilities, infrastructure and resources required as well as the financial status, and the offer must be very lucrative so as to attract distributors with very good performance records of the past.

Existing channel members can also be a source for, you know finding suitable channel partners. References from existing channel partners can be used and this is a very you know inexpensive method, as background checks can be easily done. And of course, the channel that, the competitors channel partners can also be used especially you know if this particular company which or the competitor company are not particular about exclusive distribution.

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Selection Criteria:

- Both quantitative as well as qualitative measures may be used to assess and evaluate channel members before they are finally chosen
- Quantitative: Range of products handled, and whether similar product lines handled as those dealt with by the company; infrastructure and location; related experience; financial status and solvency as well as investment capabilities; market coverage, sales volume earned in the past few years, customer base; new customers earned in the past few years, etc.
- Qualitative: Flexibility and adaptability, reputation in the market and business, image and goodwill, attitude, commitment, and willingness to help customers, etc.

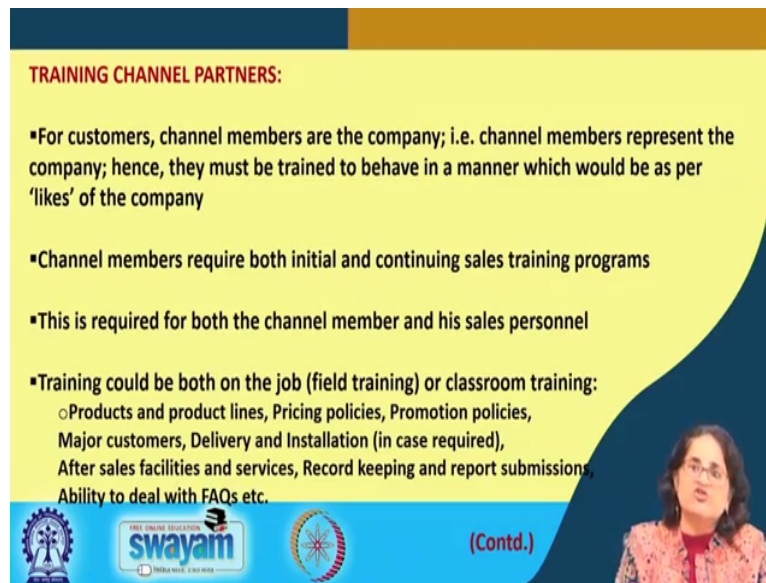
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The selection criteria for selecting channel partners can be qualitative as well as quantitative. Qualitative is with respect to flexibility and adaptability of the channel partner, his reputation in the market and business image, goodwill, attitude, commitment and willingness to help customers.

The quantitative measures could be the range of product handled and whether similar product lines handled as those which are being dealt with by the company, infrastructure and location, related experience, financial status and solvency, as well as investment capabilities, market coverage, sales volume earned in the past few years, customer based, new customers earned in the past few years. All of these could be measures or you know on the, could be criteria on the basis of which channel partner, channel members can be evaluated before they are actually chosen as channel partners.

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TRAINING CHANNEL PARTNERS:

- For customers, channel members are the company; i.e. channel members represent the company; hence, they must be trained to behave in a manner which would be as per 'likes' of the company
- Channel members require both initial and continuing sales training programs
- This is required for both the channel member and his sales personnel
- Training could be both on the job (field training) or classroom training:
 - Products and product lines, Pricing policies, Promotion policies, Major customers, Delivery and Installation (in case required), After sales facilities and services, Record keeping and report submissions, Ability to deal with FAQs etc.

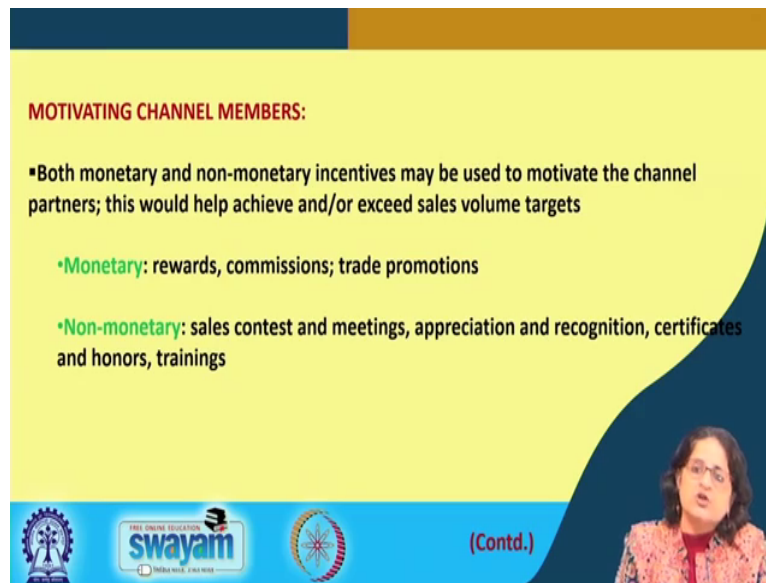
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The training of channel partners is extremely crucial and typically, because the channel members represent the company, hence they must be trained to behave in a manner which would be as per the likes of the company.

So, the training programs here could be both initial and continual selling, sales training programs, and they could be they, these training programs should be held for both the channel member and his sales personnel. So, it could be the training program for dealers and distributors as well as their sales man, and training could be both on the job as well as a classroom training. And the content must include you know inputs on product and product lines, pricing policies, promotion policies, major customers, delivery and installation policies, after sales services, record keeping and report submissions, as well as ability to deal with frequently asked questions.

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MOTIVATING CHANNEL MEMBERS:

- Both monetary and non-monetary incentives may be used to motivate the channel partners; this would help achieve and/or exceed sales volume targets
- Monetary:** rewards, commissions; trade promotions
- Non-monetary:** sales contest and meetings, appreciation and recognition, certificates and honors, trainings

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To keep the sales to keep the channel members motivated companies must use both monetary and non-monetary incentives. So, motivating channel members is extremely crucial which we have seen and discussed in the past. Monetary in the rewards, monetary incentives could be in the form of rewards, commission, straight promotions and non-monetary incentives could be in the form of sales contests and meetings, appreciation, recognition certificates and honors, training programs etcetera.

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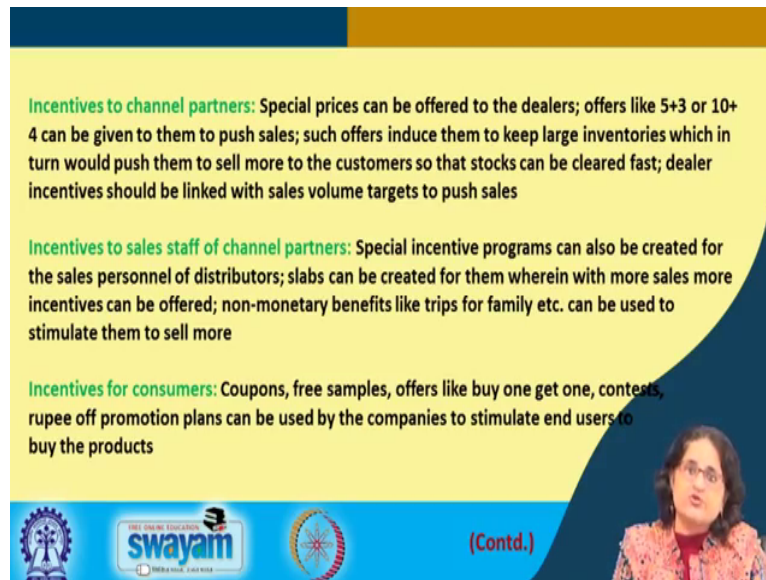
Specific measures that can be taken by companies to encourage channel members to sell more:

- Sharing promotional risks with the company:** Many distributors share the idea that it is entirely the job of a manufacturer to take care of the promotional activities; as it comes with a cost, they themselves avoid doing it but if the manufacturer can decide to share risk, distributors can be at least induced to promote products; free point of purchase materials as well as cooperative advertising programs can be used
- Using promotional methods:** Extra incentives can be offered to the distributors if sales are supplemented with respect to promotional activities, more specifically when these are taken up by the distributor on his own

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Specific measures that companies must take to encourage channel members to sell more is by sharing promotional risks with the company and using promotional methods, both of which will help the organization in motivating its channel members.

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Incentives to channel partners: Special prices can be offered to the dealers; offers like 5+3 or 10+4 can be given to them to push sales; such offers induce them to keep large inventories which in turn would push them to sell more to the customers so that stocks can be cleared fast; dealer incentives should be linked with sales volume targets to push sales

Incentives to sales staff of channel partners: Special incentive programs can also be created for the sales personnel of distributors; slabs can be created for them wherein with more sales more incentives can be offered; non-monetary benefits like trips for family etc. can be used to stimulate them to sell more

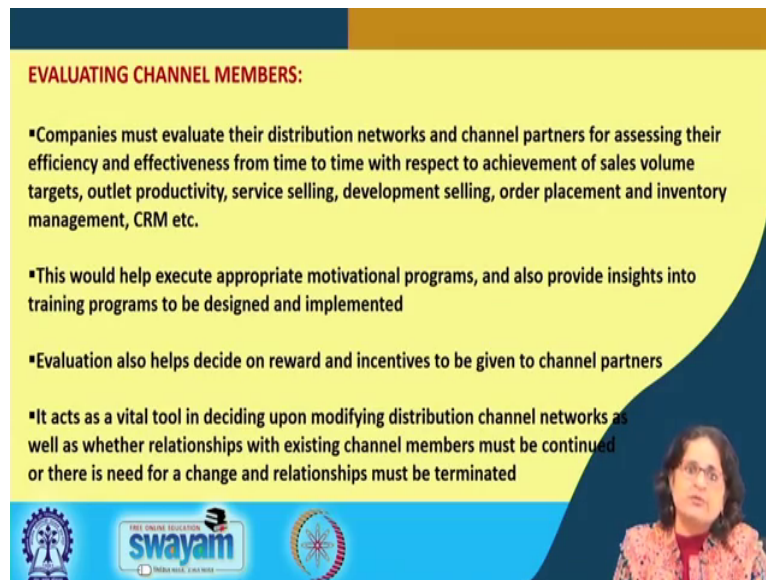
Incentives for consumers: Coupons, free samples, offers like buy one get one, contests, rupee off promotion plans can be used by the companies to stimulate end users to buy the products

(Contd.)

Incentives may be paid to channel members special deals for prices can be offered to dealers, you know which would induce them to keep large inventories, and which they would later push them to sell more to their customers, so that the stocks can be cleared fast. Dealer incentives should be linked with the sole sales volume targets to push sales. Similarly incentives may be offered to sale staffs of channel partners, where special incentive programs can be created for the sales personnel of the distributors and the dealers. Slabs can be created from there for them, where in with more sales more incentives can be offered. Also non monetary benefits like paid holidays and trips for family etcetera can be used to stimulate them to sell more.

Of course and of course, incentives can be provided to consumers as well in the form of coupons, free samples and other sales promotional measures you know which can stimulate end consumers to buy the product.

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EVALUATING CHANNEL MEMBERS:

- Companies must evaluate their distribution networks and channel partners for assessing their efficiency and effectiveness from time to time with respect to achievement of sales volume targets, outlet productivity, service selling, development selling, order placement and inventory management, CRM etc.
- This would help execute appropriate motivational programs, and also provide insights into training programs to be designed and implemented
- Evaluation also helps decide on reward and incentives to be given to channel partners
- It acts as a vital tool in deciding upon modifying distribution channel networks as well as whether relationships with existing channel members must be continued or there is need for a change and relationships must be terminated

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We come to evaluation of channel members; companies must evaluate their distribution network and channel partners for assessing the effectiveness and efficiency from time to time with respect to achievement of sales volume targets, outlet productivity, service selling, developmental selling, order placement and inventory management, customer relationship management etcetera.

So, this would help execute you know motivational programs and also give insights into training programs to be designed and implemented. Evaluation will also help decide on the rewards and incentives to be given to the channel partners and to the sales personnel of the channel, of the trade channel members.

And evaluation acts as a vital tool also in term in, in deciding about modifying the distribution channel networks, as well as whether relationship with existing channel members must be continued or there is a need for termination of relationships and beginning of a relationship with a new channel partner.

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Logos at the bottom: Swamyam (Free Online Education), and other institutional logos.

So, with this we come to an end of our lecture on channel systems and on channel management and we shall be discussing the subsequent topics in the next lecture which is part two. I hope you found this lecture beneficial.

Thank you.