**Marketing 3.05**

**Acquire foundational knowledge of channel management to understand its role in marketing**

1. **Important definitions**
   1. Channel Management is controlling the movement of the product(s) through the system.
      1. Logistics deals with the movement of goods and timing of the deliveries
      2. Distribution involves the movement, storage and inventory control of the product(s).
   2. A Channel: The path (channel) a product travels from the producer (manufacturer) to the ultimate consumer
   3. Remember that channel management = place
2. **Channel management decisions**
   1. Select channel members
   2. Manage and motivate channel members
   3. Evaluate channel members
   4. Ask the question “What is the best means to distribute the product?”
3. **Intermediaries**
   1. Also known as middleman
   2. Defined as channel members who assist the producer in getting the goods and services to the final user
4. **Direct vs Indirect**
   1. Direct
      1. Distribution that occurs directly from the producer to the consumer
      2. For example: A consumer buys apples from an apple farmer cuts out the middleman
   2. Indirect
      1. Distribution that occurs through one or more intermediaries before reaching the final user
      2. Is used when a producer doesn’t want responsibility for the selling activities of a large retailer
         * Producer to agent to retailer to consumer
      3. Is used because wholesalers usually buy in large quantities
         * Producer to wholesaler to retailer to consumer
      4. Example: The apple farmer sells his apples to Harris Teeter and Harris Teeter sells them to the consumer
5. **Transportation**
   1. Physically moving from Place A to Place B
   2. Methods include:
      1. Trucking or motor carriers b) Railroads c) Railroads
6. Marine shipping e) Pipelines d) Air cargo services
7. **Inventory**
   1. Storing of merchandise before it is sold
      1. Perpetual inventory control
      2. Physical inventory control
   2. Methods for checking inventory
      1. Blind check b) Direct check c) Spot check d) Quality
8. **Purpose of channel members**
   1. Channel members add value to a product by performing certain channel activities expertly
      1. Marketing b) Packaging c) Financing d) Storage
9. Delivery f) Merchandising g) Personal selling
10. **Distribution Planning**
    1. Multiple Channels
       1. Some products meet the needs of both industrial and consumer markets.
    2. Distribution Intensity
       1. Distribution intensity is how widely a product will be distributed; marketers want to achieve the ideal market exposure
       2. Exclusive distribution – protected territories for distribution of a product in a given geographic area; business maintains tight control over a product.
       3. Selective distribution – a limited number of outlets in a given geographical area are used to sell the product.
       4. Intensive distribution – the use of all suitable outlets to sell a product
11. **Dual distribution**
    1. A manufacturer may sell its products through multiple outlets at the same time:
       1. Toll-free phone system b) Company website c) Multiple retailers
12. **Horizontal and Vertical Conflict**
    1. Horizontal Conflict: occurs between channel members at the same level
       1. Good, old-fashioned business competition
       2. Ex: two retailers selling pet supplies compete to sell to the same target market
    2. Vertical Conflict: occurs between channel members at different levels within the same channel
       1. Producers and wholesalers or producers and retailers
13. **Customer service and appropriate channel management**
    1. Ensures timely delivery of products
    2. Effective communication is important in order processing
    3. Grey-market strategy – selling product in foreign countries for a lower price than customers can get domestically
    4. Full-line forcing - Producer or supplier insistence that the dealer must carry the full range of products in the line. This policy may not be illegal if it can be established that it serves a legitimate business need.
    5. Bad customer service
       1. Vendor consistently has back orders: product not available when ordered
       2. Coercion – large business threatening to stop using a supplier unless given major concessions
14. **Use of technology in Distribution**
    1. Some businesses have the capacity to distribute most or all of their products through the internet
       1. e-commerce: Products are sold to customers and industrial buyers through the Internet.
       2. e-marketplace
    2. Satellite tracking = a dispatcher has current knowledge of a delivery truck’s location and destination
    3. Tracking of package
       1. Bar coding on package
       2. Package scanned at transition points in distribution chain
    4. Customer uses internet to follow package along distribution chain; e-mail may be used
    5. Global distribution: in some countries the postal service is not reliable; package tracking facilitates global trade

**Marketing 3.06**

a. Describe the characteristics of effective pricing.

* Attracts the customer’s attention
* Enforces the idea of “value” for the money
* Takes into account:
  1. Cost to produce
  2. What competitors are charging
  3. What customers are willing to pay

b. Explain what is being priced when prices are set for products.

* The good or service
* Any services and warranties
* Consider not only the cost of making but the benefit to the customer (think about the price of a diamond)

c. List factors that affect a product's price.

* Perfect competition-Many buyers and many sellers all dealing in an identical product. Neither producer nor user has any market power and both must accept the prevailing market price.
* Monopoly-One seller who dominates many buyers. The monopolists can use his market power to set a profit-maximizing price.
* Monopolistic competition-A large number of suppliers offer similar, but not identical products. The similarities ensure elastic demand whereas the slight differences give some monopolistic power to the supplier.
* Oligopoly-Where are relatively few competitive companies dominate the market whilst each large firm has the ability to influence [market prices](http://www.articlealley.com) the unpredictable reaction from the other giants makes the final industry price in determinate. Cartels are often formed.
* Cost to produce

d. Describe how pricing affects product decisions.

* Pricing affects whether and how much customers will buy and therefore is an important part of the decision to make or sell specific products.
  + Decisions on whether to expand a product line or close it are related to what price can be charged.

e. Explain how pricing affects place (distribution) decisions.

* Shipping products long distances can significantly increase the price of an item; knowing what customers are willing to pay, competitors are charging, and then figuring what it costs to make and ship the item have to be considered when setting prices.

f. Describe how pricing affects promotion decisions.

* When setting prices and promotion plans and company must consider:
  + Is the company trying to break into an existing market?
  + Is it trying to expand into new markets?
  + What is the competition doing?

g. Explain pricing objectives.

* Pricing objectives are the goals a company hopes to achieve through it pricing decisions. (See above)

a. Define the following terms: price fixing, predatory pricing.

* Price fixing is collaborating with other companies (competitors) to set prices for a company’s products, price fixing is illegal.
* Predatory pricing is the practice of selling a product or service at a very low **price**, intending to drive competitors out of the market

b. Identify ethical considerations in setting prices.

* Ethical considerations include the importance of accessibility to the company’s product(s).
  + Think about the price for medicine that is required to keep ill people alive (like insulin)
* How much profit does the company need to stay in business to provide jobs for its employees?

c. Explain ethical concerns associated with the use of complex prices that are confusing to consumers.

* Ethically, making pricing so complex that customers don’t understand how it works means that the company might be taking financial advantage of customers.
  + This ultimately results in customers looking for different suppliers
  + Think about the complexity of taking an airline flight vs. renting a car

d. Explain how pricing tactics can relate to social responsibility.

* Since products often help improve the standard of living for the customers, pricing has a direct effect on society. Pricing must consider the common good as well as the welfare of the company doing the selling.

a. Identify ways that the use of technology impacts the pricing function.

* Technology allows data to be easily collected, collated and analyzed. This means that pricing decisions can be effectively reviewed with solid information.
* Pricing can also be inputted into the computer cash register system reducing the number of input pricing errors at the cash register.

b. Explain specific applications of technology in pricing.

* See above

c. Describe benefits of automating the pricing process.

* Instead of having to price every item in the store, one person can easily change prices with a change in the programming and signs that inform the customer of the price.

d. Discuss risks associated with automating the pricing process.

* Errors in the programming might be hard to catch, especially if the price is off by only a few cents or dollars (depending on the overall price of the item).
* Cashiers don’t have to learn the prices and therefore can’t check that they are charging the correct prices on the register.

e. Explain how automating pricing facilitates targeted pricing.

* Targeted pricing allows a company to charge different prices to new customers it is trying to entice than to established customers who need no other incentive to by the company’s brand.
* Automated pricing allows the programmer to set the qualifications and then the system awards the targeted price when the conditions have been met.

1. Define the following terms: bait-and-switch advertising, deceptive pricing, dumping, loss-leader pricing, predatory pricing, price discrimination, and price fixing.
   1. bait-and-switch advertising. First, customers are "baited" by [advertising](http://en.wikipedia.org/wiki/Advertising) for a product or service at a low price; second, the customers discover that the advertised good is not available or the sales person disparages the advertised item and customers are "switched" to a costlier product.
   2. deceptive pricing – **False advertising** or **deceptive advertising** is the use of false or misleading statements in [advertising](http://en.wikipedia.org/wiki/Advertising). As advertising has the potential to persuade people into commercial transactions that they might otherwise avoid. Examples of deceptive pricing are Savings claims, price comparisons, "special" sales, "two-for-one" sales, "factory" prices, or "wholesale" prices.
   3. Dumping is the practice of is any kind of [predatory pricing](http://en.wikipedia.org/wiki/Predatory_pricing), especially in the context of [international trade](http://en.wikipedia.org/wiki/International_trade). It occurs when manufacturers export a product to another country at a price either below the price charged in its home market, or in quantities that cannot be explained through normal market competition.
   4. loss-leader pricing – a product sold at a low price (at cost or below cost) to stimulate other profitable sales. It is a kind of [sales promotion](http://en.wikipedia.org/wiki/Sales_promotion), in other words [marketing](http://en.wikipedia.org/wiki/Marketing) concentrating on a [pricing strategy](http://en.wikipedia.org/wiki/Pricing_strategies). A loss leader is often a popular article.
   5. Predatory pricing is the practice of selling a product or service at a very low **price**, intending to drive competitors out of the market
   6. price discrimination – **Price discrimination** or **price differentiation** exists when sales of identical goods or services are transacted at different [prices](http://en.wikipedia.org/wiki/Price) from the same provider.
   7. Price fixing is an agreement among competitors to raise, fix, or otherwise maintain the price at which their goods or services are sold, price fixing is illegal.

b. Describe laws affecting pricing.

American consumers have the right to expect the benefits of free and open competition — the best goods and services at the lowest prices. Public and private organizations often rely on a competitive bidding process to achieve that end. The competitive process only works, however, when competitors set prices honestly and independently. When competitors collude, prices are inflated and the customer is cheated. Price fixing, bid rigging, and other forms of collusion are illegal and are subject to criminal prosecution by the Antitrust Division of the United States Department of Justice.

* Explain positive effects of pricing laws.
  + Customers know that they aren’t being taken advantage of
  + Pricing is consistent

d. Discuss negative effects of pricing laws.

* Prices become less like to be modified (even down) because the law might see the change in a negative manner.

e. Explain the impact of anti-dumping laws on consumers.

<http://www.fff.org/freedom/fd0202f.asp> **ANTI-DUMPING LAWS** have been with us since the early decades of the 20th century. Ostensibly aimed at preventing unfair trade practices, they have in recent decades been used mostly to punish foreign producers for offering their products to domestic consumers at low prices. Rather than being used to protect the public (from low prices), they have been used to protect inefficient domestic producers from foreign competition at the expense of the general public. They are a classic example of special-interest legislation, what economists would call rent seeking.

1. Define the term selling price.
   * Price at which a product is sold to the customer
2. Distinguish between price and selling price.
   * Price is the initial amount that the company would like to charge for an item
   * Selling price is the actual price for which it is sold to the customer
3. Describe the importance of selling price.
   * The selling price must bring enough profit to the seller so the company can stay in business
4. Identify factors affecting selling price.
   * Competitors’ prices
   * What customers are currently willing to pay
   * What the item costs to make, ship and sell
5. Explain how consumers can affect selling price.
   * It is all about what they are willing to pay
6. Describe how government affects selling price.
   * Regulations, laws and oversight can affect what companies will charge.
   * Tariffs and additional taxes (think gasoline) can significantly change prices
     1. The price of gas in NC vs. SC
7. Discuss how competition can affect selling price.
   * If competition raises its prices, our company might be able to make more by raising our prices
   * The opposite is true for lowering prices.
8. Explain how the nature of a business can affect selling price.
   * How much competition does your business have in the area or online?
   * Are you selling big ticket or in expensive items?
   * Are your products seasonal?
   * Are you the industry leader or a follower?
9. Identify pricing objectives.
   * Increase market share
   * Enter a new market
   * “Cash cow” phase
10. Explain how pricing objectives affect selling price.
    * Is the company trying to break into an existing market? *Lower prices usually help.*
    * Is it trying to expand into new markets? *Target pricing for new customers.*
    * Trying to build market share? Match competitors or lower prices below theirs.