# Integrating Marketing Channels into
# A Value Creating Network

Assignment for the course '*Marketing Management*' (MKT-5001)
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# Chapter 1 - Introduction

This assignment draws from a review of the foundational literature on marketing channels, and the aims to provide a basic, yet synthesied, understanding of the key concepts, in a simple and clear structure. The assignment introduces (in Chapter 1) the modern concept of *value-creation-network* which acts as the guiding theme throughout this work. After explaining the key definitions and concepts (in chapter 2), and the key roles and functions of channels (in chapters 3 and 4), the assignment moves on to more complex topics of power (in chapter 5) and conflicts (in chapter 6). Each of the chapters 1 to 6 builds on its preceding one, preparing the foundations to understand *designing channels* (in Chapter 7). The concluding chapter discusses the strategic goals of channel design - *Synergy, sustainability and value creation* (in Chapter 8).

**What is a value-creating-network of marketing channels? And why is it important?**

Traditionally, the concept of supply chain takes a linear and limited 'make and sell' approach, focusing on factories and raw materials as the starting point for marketing. A more evolved, but also outdated, approach is to manage a demand chain, implying the need to sense the market first and then respond (Kotler, 2003).

Current marketing literature promotes creating a value-creating-network which sees all suppliers, distributors and connected business partners and processes as part of a system to 'source, augment and deliver' what the customers value. (Kotler, 2003). It can be visualised as a dynamic process where each partner adds value for the customer while also adding a cost (Kotler, 2003, p.515)
A partner in the *value-creating-network* of a producer will most likely be an independent business itself. For example, a merchant reselling to the end-consumer for a profit, or an agent who completes the sale on the producer's behalf in return of a commission. These partners, although in direct contact with the consumers, shaping their ultimate experience, may not be completely aligned with the producer's business philosophy. While facilitating sales in the short term, this misalignment can affect the customer's perceived value and the brand equity in the long term (Joe, Kent and Kerby, 1970).

As a result, companies today not only evaluate their immediate suppliers and distributors. Instead, they look both 'upstream' and 'downstream', at the chain of processes which lead to the immediate suppliers, and those following the immediate distributors leading to the customers (Kotler, 2003, p.503). According to Kapferer & Bastien, "The choice of channel is as strategic as the product itself" (2012, p.67). This is especially true as the wrong choice will undermine the product or service's positioning and dilute the consumer's overall perception of the brand (Journal of Brand Management, 2014). In the words of Kotler & Keller (2016), "Extending a brand too far, or through channels inconsistent with its positioning, can weaken consumer perceptions and erode equity" (p.325)

Therefore, investing on the carefully study of one's value-creating-network, and on its design, evaluation and management, is ultimately an investment in one's own brand and its safeguarding.

**- End of Chapter 1 -**

# Chapter 2 - Important concepts and definitions

## 2.1 Value delivery network of partners

A value delivery network comprises the organisations, systems and processes that jointly create and deliver customer value. This is a paradigm shift from the traditional isolated transactions to a systemic and coordinated interdependence in value creation (Kotler, 2003; Rangan, 2014). In practice, the network includes *upstream* suppliers who provide inputs and capabilities, *downstream* distributors and retailers who shape the customer experience, and a range of partners that facilitate transactions and intelligence regarding services, finance and information (Stern, El Ansary & Coughlan, 2012; Rosenbloom, 2011). For example, electronics companies coordinate component suppliers, contract manufacturers, logistics providers and retail partners so that the product design, production and point-of-sale presentation are all aligned with brand promises and positioning (Kotler, Keller & Chernev, 2022; Mentzer & Williams, 2001).

## 2.2 Channels and intermediaries

**What are channels and why are they important?**

*Marketing channels* (or distribution channels) are the organised sets of interdependent organisations through which products, services, information and payments flow from producers to consumers (Kotler & Keller, 2016; Rosenbloom, 2011). Channels can be categorised by structure (i.e. who participates and at what level) and also by function (what tasks are performed—transportation, financing, promotion, order processing, risk-bearing). Channels play a crucial role in *matching offers to customer needs (*Kotler & Keller, 2016), facilitating the transfer of ownership (Rosenbloom ,2011) and in facilitating specialisation of tasks and spreading out the transaction costs across different channel levels (Stern et al. ,2012)

**What are intermediaries and why are they important?**

Intermediaries are organisations that stand between producers and consumers, performing functions such as buying, selling, storing, financing, transporting, and information processing to facilitate the flow of goods and services (Cambridge University Press, 2010). In the literature of marketing channels, the term *intermediary* is often used synonymously with the term *channel member* or *value-creating partner*, reflecting their role in enhancing efficiency and customer value (Rosenbloom, 2011).

## 2.3 Categorising Channels

### 2.3.1 Categorising by structure and number of levels

The concept of layers of *levels* within a channel and the categorisation of channels by structure into direct, indirect and other forms of distribution structures have been discussed below **in section 2.6.2**. The application of these concepts in channel design have been discussed **in Chapter 7**)

### 2.3.2 Categorising by intensity of distribution

The intensity of distribution refers to the strategic decision regarding how widely a product is made available across retail outlets. Three primary approaches are commonly identified in marketing literature. An **intensive distribution strategy** seeks the widest possible availability, ensuring that products are accessible in as many outlets as possible, which is particularly effective for convenience goods. In contrast, **selective distribution** involves limiting the number of outlets, choosing only those that align with the brand's positioning and desired market fit. Finally, **exclusive distribution** further narrows down availability by restricting to distribution to a single or very few outlets per territory, often employed as a deliberate positioning tool to enhance prestige and brand image (Journal of Brand Management, 2014; Kapferer & Bastien, 2012). These strategies are not merely logistical choices but serve as powerful instruments of brand differentiation and competitive advantage.

### 2.3.3 Categorising by ownership and control

Distribution systems can also be classified by ownership and control structures, often conceptualised through vertical marketing systems (VMS). A **corporate VMS** integrates successive channel-levels under a single ownership, thereby ensuring tight coordination and control. A **contractual VMS**, although not managed by a single company, relies on formal agreements such as franchising or wholesaler-sponsored voluntary chains to achieve cooperation among the independent firms. On the contrary, an **administered VMS** does not rely on ownership or contracts but achieves coordination through the influence of market power, where dominant players enforce alignment across the channel (Stern et al., 2012; Pénard et al., 2003). These forms of organisations highlight how governance mechanisms shape efficiency and bargaining power within distribution networks. The concept of **power and influence** have been explained in **Chapter 5 - Power dynamics and relationships** and the **control and governance mechanisms** have been discussed in more detail in **chapters 5,6 and 7 (section 7.7).**

#### 2.3.4 Categorising by channel function

Beyond intensity and ownership, distribution channels can be analysed by the functions they emphasise. Four key functions are typically distinguished – *transactional, logistical, facilitation, communication*. **Transactional** functions involve buying, selling, and assuming risk in the process of moving goods. **Logistical** functions focus on the physical distribution of products, including storage, transportation, and inventory management. **Facilitation** functions support the channel through financing, grading, and providing information. And finally, **communication** functions ensure that promotional messages and brand positioning are effectively transmitted across intermediaries to the end consumers (Kotler & Keller, 2016; Rosenbloom, 2011). Together, these functions illustrate the multifaceted role of distribution channels in bridging producers and consumers, not only by moving goods but also by creating value through information, service, and relationship management. The different functions of channels have been discussed in more detail **in chapters 3 and 4.**

## 2.4 Types of Intermediaries

#### 2.4.1 Upstream partners (Supply chain)

Upstream partners supply the raw materials, components and specialised services that make production possible There, managing these upstream relationships is essential for quality, cost control and innovation (Kotler, 2003; Rosenbloom, 2011). Long-term supplier relationships, joint planning and information sharing reduce lead times and variability, as seen in automotive and electronics industries where just-in-time coordination and supplier development are standard practice (Mentzer & Williams, 2001; Stern et al., 2012). Financial and information partners such as banks, insurers and data providers also play crucial upstream roles by enabling transactions and providing market intelligence that informs sourcing decisions (Kotler, Armstrong & Opresnik, 2018).

The following are some examples of how different types of upstream partners add value in the production process.

2.4.1A Raw-material and component suppliers:
Raw material and component suppliers determine the physical inputs and often the technological constraints of a product. Their capabilities and quality influence the final cost, quality and innovation potential (Rosenbloom, 2011). For example, factories that supply smartphone manufacturers with semi-conductor chips, or those supplying steel to automakers, illustrate how upstream processes allow producers to offer high-quality products and competitive pricing (Kotler, 2003; Kotler & Keller, 2016).

2.4.1B Service and capability providers:
Service providers such as contract manufacturers, testing labs or design consultancies often augment a producer's capabilities, allowing them to access specialised skills without making large capital-investments (Rangan, 2014; Rosenbloom, 2011) For example, Dyson's use of external engineering partners for prototyping and specialised testing exemplifies how Dyson's service partners catalyse innovation while preserving capital (Kotler et al., 2018).

2.4.1C Financial and information partners
The services of financial institutions and insurers help a business' risk-management in addition to providing the data necessary for strategic and tactical decision making (Mentzer & Williams, 2001; Verhoef, Kannan & Inman, 2015). Retailers, for instance, usually share their point-of-sale data that help producers in fine-tuning the offered assortment into one that customers value (Stern et al., 2012).

#### 2.4.2 Downstream partners (Distribution channels)

Downstream partners play a central role in translating products into customer experiences, through assortment, merchandising, service, and after-sales support, thereby shaping the customer's perceived value and ultimately, the brand equity (Kapferer & Bastien, 2012; Journal of Brand Management, 2014). A well-coordinated network, such as Coca-Cola's system of bottlers, wholesalers, and retailers, illustrates how downstream activity ensures product availability and consistent brand presentation across diverse retail formats (Kotler, 2003; Rangan, 2014).

2.4.2A Wholesalers and Distributors

Wholesalers purchase goods in bulk from producers and resell them to retailers or institutional buyers, taking ownership of the goods and performing functions such as bulk breaking and inventory management (Frazier, 2025). Distributors similarly aggregate supply and extend reach into fragmented retail markets, reducing transaction costs for producers and enabling smaller retailers to access broad assortments. Traditional wholesale (i.e. large deliveries to retailers on credit) and modern *cash-and-carry* models (i.e retailer collects smaller stocks with cash) are both examples of how distributors provide respond to retailer market needs and sizes (Stern et al., 2012).

2.4.2B Dealers, Resellers, and Value-Added Service Providers

Dealers and resellers, particularly in sectors such as automotive, provide local expertise, financing, and service capabilities that facilitate purchase decisions and ownership transfer (Rosenbloom, 2011; Kotler & Keller, 2016). Value-added service providers enhance product offerings by bundling installation, customisation, and ongoing support, thereby increasing perceived value and enabling premium pricing in both B2B and complex consumer markets (Rangan, 2014; Rosenbloom, 2011).

2.4.2C Agents and Brokers

In distribution, the term *title* refers to bearing the risk and responsibility unsold or expired goods. A producer will always carefully consider 'whether or not an intermediary takes title to the goods' (Joe, Kent and Kerby,1970, p.341) Although agents and brokers facilitate transactions without taking title to goods, they offer negotiation capabilities and market access that are especially valuable in services and regulated markets. Insurance brokers and real estate agents are typical examples of these non-ownership intermediaries (Stern et al., 2012).

2.4.2D Retailers and Franchisees

Retailers form the final link in the distribution chain, selling directly to consumers through diverse formats such as department stores, supermarkets, specialty stores, and online platforms (Kotler, 2003; Verhoef, Kannan & Inman, 2015). The rise of omni-channel strategies has revolutionised retailing formats, integrating online and offline functions to deliver seamless customer experiences and positioning retailers as interfaces for consumer engagement (Verhoef et al., 2015). In Franchise systems, local entrepreneurship functions under brand control, as seen in McDonald's global network, ensuring consistency in supply and standards while leveraging local market knowledge (Kapferer & Bastien, 2012; Pénard, Raynaud & Saussier, 2003). Finally, the choice of the retailers can directly influence the brand positioning, either reinforcing or diluting it (Journal of Brand Management, 2014).

## 2.5 Forward and reverse flow

The functioning of marketing channels depends on the effective management of both forward and reverse flows between intermediaries, which together ensure efficiency and value creation for customers. Alongside physical movement of goods, two-way exchanges of market intelligence, ownership documents, and financial settlements are also critical.

**Forward flow** refers to the downstream movement of goods and ownership from producers to consumers, encompassing activities such as transportation, warehousing, order fulfilment, and retailing (Mentzer & Williams, 2001; Rosenbloom, 2011). These processes are central to delivering products reliably and at scale, and Stern et al. (2012) emphasise that channel rules and procedures must guarantee smooth flows of goods, payments, and information to maintain system integrity. In contrast, **reverse flow,** or reverse logistics, involves upstream movements (from consumers to producers) for purposes such as product returns, repairs, recycling, and refurbishing. This dimension has gained prominence in warranty management and exchange offers and in the development of circular economy strategies, where recovering value from returned goods is as important as the initial distribution. Recent studies highlight innovations such as circular retailing and smart packaging, which redesign reverse flows into strategic components of distribution networks (Mora Chaves et al., 2026; Wangwacharakul et al., 2026).

## 2.6 Distribution Strategies

**2.6.1 Varying the number of Channels**
The design of distribution systems often hinges on how many channels a firm chooses to employ. While some organisations rely on a single pathway to reach customers, others diversify across multiple or integrated channels to maximise reach, flexibility, and customer satisfaction. Two dominant approaches illustrate this variation: **multichannel distribution** and **omni-channel or hybrid models**. The discussion on **three**

**different distribution strategies** (intensive, selective and exclusive) have already preceded **in section 2.3.2** which showed how varying channel intensity are careful choices between coverage and control that serve strategies related to differentiation, positioning and pricing.

2.6.1A Multichannel distribution

Multichannel distribution involves the use of two or more distinct channels to serve customers. For example, many businesses today sell their products and services via physical stores, third party e-commerce platforms and also via direct sales. In this structure, each channel operates in parallel but is managed independently, giving customers the freedom to select their preferred option. The advantage lies in expanded market coverage and accessibility for the customers. However, the separation of channels can lead to duplication, inconsistency, or even conflict. The literature shows that unless governance mechanisms and incentive structures are carefully designed, multi-channel strategies may foster self-damaging competition between intermediaries rather than collaboration, undermining the overall efficiency of the distribution system (Verhoef, Kannan & Inman, 2015; Stern et al., 2012; Pénard et al., 2003).

2.6.1B Omni-channel and hybrid models of distribution

Omni-channel and hybrid models integrate digital and physical touchpoints into a seamless customer experience. Examples include click-and-collect services, ship-from-store logistics, and unified return systems, all of which blur the boundaries between online and offline commerce (Kotler & Keller, 2016; Verhoef et al., 2015). As opposed to the conflicting parallel processes discussed earlier, omni-channel models and hybrid systems emphasise coordination, consistency and synergies, leveraging the strengths of both digital and physical outlets. As the customers experience enhanced flexibility and convenience, the channels gain a clear competitive advantage through value-creation. (Verhoef et al., 2015; Kotler & Keller, 2016; Stern et al., 2012; Pénard et al., 2003).

### 2.6.2 Varying the number of Channel-levels

Varying the number of channel levels in distribution strategy refers to the choice between delivering products directly to consumers or using intermediaries. (Cambridge University Press, 2010). It is important because the number of levels determines how much control a producer retains over the marketing mix and consumer relations (Kotler & Keller, 2016).

2.6.2A Direct channels (zero-level systems)
Direct channels, also known as zero-level systems, involve producers selling directly to consumers without intermediaries (Kotler, 2003), a practice that is common in luxury markets where brand control is essential (Kapferer & Bastien, 2012). The advantages of direct channels include faster feedback loops (Drucker, 1954), stronger control over pricing and customer relationships , and sagefuarding the brand image (Rangan, 2014). However, such channels also have disadvantages such as higher investments in logistics, and limited scalability and coverage when compared to intermediary-based alternatives (Mentzer & Williams, 2001; Rosenbloom, 2011).

2.6.2B Indirect (or intemediary dependant) channels
Indirect (or intermediary dependant) channels rely on wholesalers, retailers, or agents to connect producers with consumers (Stern, El Ansary & Coughlan, 2012) and they are widely used in fast-moving consumer goods and international markets (Ihara, 2020). For producers, indirect channels offer economies of scale (i.e. bulk-production economies) and reduced distribution burdens for producers (Kotler, Armstrong & Opresnik, 2018). Intermediaries also offer producers broader market coverage of their products or services (Joe, Kent & Kerby, 1970). However, such channels also reduce the producer's control over brand positioning (Journal of Brand Management, 2014) and can result in potential conflicts of interest between channel members (Frazier, 2025).

2.6.2C Hybrid or dual distribution systems
Hybrid or dual distribution systems combine direct and indirect approaches, enabling firms to sell through intermediaries while also maintaining direct channels (Pénard, Raynaud & Saussier, 2003). This model is increasingly relevant in omni-channel retailing, where firms combine online and offline strategies (Verhoef, Kannan & Inman, 2015). The advantages of this include flexibility to serve different market segments simultaneously (Rosenbloom, 2011) and the ability to leverage intermediaries' reach while retaining direct consumer relationships (Mora Chaves et al., 2026). The potential disadvantages of using a hybrid system are the risks of channel conflict and cannibalisation (Kotler, Keller & Chernev, 2022), as well as the inconsistencies in pricing and complexities involving logistics coordination (Wangwacharakul et al., 2026).

**- End of Chapter 2 -**

# Chapter 3 — The key roles and functions of marketing channels

Marketing channels not only bridge the gaps between the producers and consumers (e.g., in communication, supply and demand, constraints and choices, etc.) they also play a pivotal role in shaping the marketing mix for any given product or service. From the producer's perspective, they are in-fact value-creating channels whose importance cannot be overstated.

## 3.1 Shaping the marketing mix

### 3.1.1 Shaping the Product

Channels influence the core, actual, and augmented product levels by determining how goods are presented and supported in the marketplace (Kotler & Keller, 2016; Rosenbloom, 2011). Consequently, distribution systems add services, warranties, and after-sales support that enhance the augmented product (Rosenbloom, 2011). For example, selective distribution in luxury markets elevates the augmented product level by reinforcing exclusivity and prestige through controlled access (Journal of Brand Management, 2014).

### 3.1.2 Shaping the Price

Channels affect pricing through margins, markups, and discounts that ultimately determine the final price consumers pay (Kotler & Keller, 2016). Moreover, intermediaries negotiate prices to balance producer profitability with customer affordability, thereby stabilising market exchanges (Frazier, 2025). For instance, royalty arrangements in franchised dual distribution systems directly shape pricing structures across networks (Pénard, Raynaud & Saussier, 2003).

### 3.1.3 Shaping the Place

Marketing channels create *place* utility by ensuring products are available where target customers find them most convenient (Kotler & Keller, 2016). Thus, the design of distribution networks determines how effectively firms can reach markets and, in turn, shapes the place element of the marketing mix (Rangan, 2014). Notably, controlling place through selective distribution can reinforce brand equity by limiting access to chosen outlets (Journal of Brand Management, 2014).

### 3.1.4 Shaping the Promotion

Channels act as vehicles for promotion, carrying messages about products and brands alongside the physical goods (Kotler & Keller, 2016). Therefore, intermediaries often play a persuasive role at the point of sale, reinforcing brand positioning and influencing customer perceptions (Frazier, 2025). As a result, effective channel management integrates promotional activity with distribution to strengthen brand communication.

## 3.2 Bridging gaps between producers and consumers

### 3.2.1 Bridging producer feasibility and consumer choices

**3.2.1**A. Matching offers to needs

Fundamentally, channels bridge the gap between the assortment of goods produced and consumer preferences, ensuring supply is matched to demand (Kotler & Keller, 2016). Consequently, channels tailor product and service bundles to the specific requirements of target markets, increasing customer satisfaction and loyalty (Frazier, 2025). While exclusive offers match niche clientele expectations in selective or exclusive distribution strategies (Journal of Brand Management, 2014), intensive distribution fulfill the customer needs of easy and affordable access of necessity products/

**3.2.1**B. Bridging time, place and possession

Channels overcome separations of time and geography by making products available when and where consumers want them (Kotler, 2003). In addition, distribution systems facilitate transfer of ownership so that manufacturers' goods reach end-users efficiently (Rosenbloom, 2011). Logistics leverage enables firms to deliver across distances and time zones, as seen in global retail chains that synchronise supply with consumer demand (Mentzer & Williams, 2001).

**3.2.1**C. Satisfying producers with bulk buying

Intermediaries purchase in large quantities, which allows producers to benefit from economies of scale and reduces the burden of many small transactions (Stern, El Ansary & Coughlan, 2012). Thus, bulk buying by wholesalers and retailers stabilises production schedules and assures manufacturers that output will be absorbed (Frazier, 2025). In franchised chains, dual distribution often involves franchisees buying in bulk from the franchisor, lowering costs across the network (Pénard, Raynaud & Saussier, 2003).

**3.2.1**D. Satisfying customers with broad assortments

By consolidating goods from different suppliers, channels provide customers with wide assortments and reduce the need to search multiple producers (Kotler & Keller, 2016). Consequently, intermediaries create convenience, enabling consumers to compare and select from broad ranges in one place (Rosenbloom, 2011). Furthermore, omni-channel retailing integrates physical and digital outlets to deliver extensive assortments across touchpoints (Verhoef, Kannan & Inman, 2015).

### 3.2.2 An interface of communication

**3.2.2**A. Gathering and distributing information

Channels serve as the critical link that gathers market intelligence and transmits it back to manufacturers for strategic decision-making (Rosenbloom, 2011). By consolidating information flows, channels reduce communication complexity and ensure both upstream suppliers and downstream customers receive timely, relevant data (Stern, El Ansary & Coughlan, 2012). For example, intermediaries in the Vietnamese toiletries market not only distributed products but also provided vital feedback on consumer preferences, enabling producers to adapt offerings to local demand (Ihara, 2020).

**3.2.2**B. Engaging and connecting with customers

Channels are relationship systems that connect producers with customers and foster trust and long-term engagement (Rangan, 2014). Modern channel strategies therefore emphasise two-way communication, allowing firms to listen and adapt offerings in real time (Frazier, 2025). In practice, omni-channel approaches integrate online and offline touchpoints to maintain continuous engagement (Verhoef, Kannan & Inman, 2015).

**3.2.2**C. Persuasive communication

Channels actively shape consumer perceptions by delivering persuasive messages alongside products (Kotler & Keller, 2016). Accordingly, effective channel management uses intermediaries as persuasive agents who influence choice and reinforce brand positioning (Frazier, 2025). Luxury brands, for instance, rely on selective distribution to communicate exclusivity and prestige, persuading customers that access itself is part of the value proposition (Kapferer & Bastien, 2012).

### 3.2.3 Facilitating transactions between producers and consumers

**3.2.3**A. Negotiating possession transfer

Channels provide the institutional arrangements through which negotiation occurs, enabling producers and buyers to agree on ownership transfer terms (Stern, El Ansary & Coughlan, 2012). Intermediaries thus balance supplier and customer interests so that possession transfer is efficient and mutually acceptable. Dual distribution systems in franchised chains often exemplify negotiation over royalty rates and transfer conditions (Pénard, Raynaud & Saussier, 2003).

**3.2.3**B. Placing orders

Channels standardise the mechanisms for placing, processing, and transmitting orders from customers to producers (Rosenbloom, 2011). By using technology and routine procedures, intermediaries reduce transaction costs and improve replenishment accuracy (Kotler & Keller, 2016). For example, intermediaries in the Vietnamese toiletries market consolidate orders from small retailers, streamlining flows and ensuring consistent supply (Ihara, 2020).

**3.2.3**C. Arranging finance and facilitating payment and credit

Channels frequently extend financing functions, offering credit to retailers and customers to support goods flow (Rosenbloom, 2011). By arranging payment terms and credit facilities, intermediaries smoothen transactions and increase customer satisfaction and sales (Frazier, 2025).

**3.2.3**D. Overseeing transactions

Channels supervise exchanges to ensure transactions are executed correctly and disputes are minimised (Rosenbloom, 2011). Effective channel systems establish rules and procedures that guarantee the smooth flow of goods, payments, and information (Stern, El Ansary & Coughlan, 2012). In practice, intermediaries often monitor transactions so that small retailers receive goods on time and payments are properly recorded (Ihara, 2020).

### 3.2.4 Logistics and risk bearing on behalf of the producer

3.2.4A. Physical distribution of goods

Channels perform physical distribution by transporting and handling goods, ensuring efficient movement from producers to retailer and consumer (Rosenbloom, 2011). Consequently, distribution systems make products available in convenient locations and at the right time (Kotler & Keller, 2016). In global supply networks, coordinated logistics in retail chains reduce the overall costs and improve customer-service (Mentzer & Williams, 2001).

3.2.4B. Assuming risks

Channels assume risks related to damage, loss, and obsolescence as goods move through the system, thereby reducing uncertainty for producers (Rosenbloom, 2011). Intermediaries take responsibility for inventory, credit, and market fluctuations, which helps stabilise supply chains (Frazier, 2025). Merchant wholesalers and dealers also take title to goods (Joe, Kent and Kerby, 1970) and so do many retailers in emerging markets who absorb the risk of unsold stock and uncertainty of demand (Ihara, 2020).

**- End of Chapter 3 -**

# Chapter 4 - Logistics and Supply Chain

## 4.1 Introduction to logistics and supply chain

**Logistics** refers to the set of activities concerned with the physical movement, storage and handling of goods and the associated information and financial flows that enable products to move from producers to customers. **Supply chain** denotes the broader network of organisations ( suppliers, manufacturers, logistics providers, intermediaries and customers) that together source inputs, transform them into products and deliver value to end users (Rosenbloom, 2011; Stern, El Ansary & Coughlan, 2012). Logistics is both operational (transport, warehousing, inventory) and informational (order processing, forecasting), while the supply chain frames these activities within inter-firm relationships and strategic objectives (Mentzer & Williams, 2001; Kotler & Keller, 2016). The literature positions logistics and supply-chain management as value adding processes that narrow the gaps of time, place, possession between producers and consumers (Kotler & Keller, 2016; Rosenbloom, 2011). When used strategically, logistics capabilities of firms can provide a competitive advantage by synchronising supply with demand across markets (Mentzer and Williams, 2001) and therefore, logistics objectives must be clearly alligned with the overall marketing strategy (Kotler & Keller ,2016; Rosenbloom, 2011).For example, when marketing a premium brand selectively, the logistical preferences will be control. On the contrary, the priorities for fast-moving consumer goods will be cost-savings and wider coverage. As seen **in Chapter 1**, the traditional concept of supply chain has evolved into one that views all suppliers, distributors and connected business partners and processes as a *value-creating-network.*

## 4.2 Realistic logistics objectives

With the strategic orientation of creating customer value, logistics objectives convert the strategic goals into measurable operational targets. These targets are meant to balance service levels, cost efficiency, inventory management, flexibility and risk mitigation, forming an integrated framework of quantifiable metrics (e.g., availability, lead times, reliability, etc) that guides operational decision-making in alignment with the broader strategy of *value-creation* (Rosenbloom, 2011; Stern et al., 2012).

#### 4.2.1 Service level targets

Realistic logistics objectives therefore convert high-level strategy into concrete, measurable targets that guide day-to-day operations (Rosenbloom, 2011; Stern et al., 2012). In practice, these objectives must reconcile competing demands. This means that on the one hand, firms seek high service levels to ensure product availability at the right place, at the right time and thus satisfy customer demand and support brand positioning. And on the other hand, managers have to trade off responsiveness and access against the increased logistics costs (Kotler & Keller, 2016). Consequently, service targets are best expressed as quantifiable metrics (fill-rate, on-time delivery, stockout frequency, etc) that are aligned with marketing promises and customer expectations.

#### 4.2.2 Cost minimisation

Closely linked to service aims is the objective of cost minimisation, which focuses on reducing total logistics expenditure, for example, on transportation, warehousing, and inventory carrying, without undermining service performance. The literature emphasise that cost reduction cannot be pursued in isolation. Rather, it requires continuous assessment of the trade-offs between efficiency and responsiveness, and the adoption of practices that lower cost per unit while preserving agreed service standards (Mentzer & Williams, 2001; Rosenbloom, 2011). Thus, effective logistics planning combines improvements in processes and network design and technology investments to compress costs without negatively impacting customer outcomes.

#### 4.2.3 Inventory turnover and working capital efficiency

Equally important are targets for inventory turnover and working capital efficiency. Firms must hold inventory at levels sufficient to meet demand yet low enough to minimise the capital tied up in stock (Stern et al., 2012) and the overhead costs. In this respect, inventory objectives are operationalised through reorder points, safety-stock policies, and cycle-count systems that together reduce holding costs while maintaining service and stock reliability. Moreover, improving turnover rates often frees cash for other strategic uses (e.g. promotion) , thereby linking logistics performance directly to broader financial goals.

#### 4.2.4 Flexibility and responsiveness

Finally, contemporary logistics objectives increasingly emphasise flexibility, responsiveness, and risk reduction. The capacity to adapt to fluctuating demand and to recover from supply disruptions has become critical, particularly in global and emerging markets where volatility is higher (Ihara, 2020; Verhoef, Kannan & Inman, 2015). To this end, firms set targets for lead-time reduction, supplier diversification, and contingency readiness. Complementing these aims, risk-reduction objectives focus on lowering uncertainty through contractual arrangements, safety stocks acting as buffers, and strong partner relationships that enhance reliability and reduce the likelihood of costly interruptions (Frazier, 2025; Pénard, Raynaud & Saussier, 2003).

## 4.3 Major Logistics Functions

Logistics comprises a set of interrelated functions, each being an operational task as well as a strategic lever for businesses.

#### 4.3.1 Order processing

Order processing covers the receipt, validation, scheduling and transmission of customer orders through the supply chain to fulfilment points (Rosenbloom, 2011; Stern et al., 2012). For example, Ihara (2020) documents how intermediaries in the toiletries market process small retailer orders into larger, scheduled orders for manufacturers. The centralised, batched order processing reduces transaction costs and stabilises production schedules. In order to reduce errors and shorten replenishment lead times, order routines can be standardised, utilising electronic data interchange (EDI) within an integrated order management systems (Stern et al., 2012; Rosenbloom, 2011) Likewise, central order hubs need to be complemented with sufficient processing hubs at the local level to increase speed and responsiveness (Mentzer & Williams, 2001).

#### 4.3.2 Warehousing

Warehousing involves the storage, handling and management of inventory at various nodes in the supply chain to match supply and demand Global retail chains use coordinated distribution centres to synchronise supply with consumer demand across time zones, thereby reducing inventory and transportation costs (Mentzer and Williams, 2001). For example, it is common for regional warehouses to hold safety stock to serve geographic markets and consequently reduce lead times (Stern et al., 2012).

Warehousing goes beyond simply holding stock to match demand. Another type of value-added warehousing that many retailers and wholesalers perform is breaking bulk and creating assortments of cutomer choice (Rosenbloom, 2011). Similarly, they also assemble, package and customise the product (Kotler and Keller, 2016). Many also use cross-docking, which is a strategy where products are unloaded from inbound transport and directly loaded onto outbound vehicles with minimal or no storage in between, thereby saving handling time and costs (Mentzer & Williams, 2001). Furthermore, third-party operated facilities are distinguished from company-owned warehouses (Rosenbloom, 2011)

#### 4.3.3 Inventory

Inventory management concerns the levels, location and control of stock held to meet demand while minimising carrying costs and obsolescence (Stern et al., 2012; Rosenbloom, 2011). Thus, cyclic stock input support expected demand whereas safety stock protects against variability (Stern et al., 2012); for example, Frazier (2025) highlights wholesalers' bulk purchases as a mechanism that stabilises production schedules and enables producers to exploit economies of scale, thereby affecting inventory policies upstream. Similarly, Ihara (2020) shows how intermediaries in emerging markets carry inventory risk for small retailers, effectively providing safety stock and smoothing supply. In addition, decoupling inventory is held to separate production and distribution processes (Rosenbloom, 2011), while consignment and vendor-managed inventory arrangements see suppliers retain ownership until sale or manage retailer inventories to improve replenishment (Frazier, 2025).

#### 4.3.4 Transportation

Transportation is the physical movement of goods between supply chain nodes. It is a major component of logistics cost and a determinant of service speed and reliability (Mentzer and Williams, 2001; Rosenbloom, 2011). Consequently, firms choose among road, rail, sea, air and intermodal combinations according to cost, speed and product characteristics (Mentzer and Williams, 2001). For example, Mentzer and Williams (2001) and Rosenbloom (2011) discuss how logistics utilise different transport means and coordinated transportation strategies such as direct shipping, milk-run collection and cross-docking) to deliver products on time while controlling costs.

#### 4.3.5 Information Systems

Information systems in logistics encompass the technologies and processes that capture, transmit and analyse data on orders, inventory, shipments and demand, thereby enabling coordination and decision-making across the supply chain (Rosenbloom, 2011; Stern et al., 2012). In particular, consolidated information flows reduce communication complexity and permit timely, relevant data exchange between upstream suppliers and downstream customers (Rosenbloom, 2011; Stern et al., 2012). Such systems integrate sales, inventory and production planning (Rosenbloom, 2011) and likewise, standardise the data exchange between channel members to speed processing and cut errors (Stern et al., 2012). Information systems is particularly important in omni-channel retailing where the data-integration helps to deliver a seamless experience across online and offline touchpoints in the customer's journey (Verhoef et al., 2015).

#### 4.3.6 Integrated logistics management

Finally, integrated logistics management treats logistics functions as a coordinated whole rather than isolated activities, emphasising cross-functional coordination within the firm and collaborative partnerships across firms to optimise the total system performance (Mentzer and Williams, 2001; Rosenbloom, 2011; Stern et al., 2012). By integrating functions, organisations can reduce duplication, lower total costs and improve responsiveness, while better aligning logistics with broader value-creation strategies. (Frazier, 2025; Kotler and Keller, 2016). The literature highlights contractual arrangements for integration beyond the firm, extending integration to the entite value-creating network of suppliers, carriers and intermediaries, who share information and jointly solve problems (Pénard, Raynaud and Saussier, 2003; Frazier, 2025). For example, firms nowadays adopt a range of collaborative mechanisms where suppliers manage inventories at customer sites (Pénard et al., 2003; Frazier, 2025; Stern et al., 2012). Similarly, third-party logistics providers play a central role by offering transportation, warehousing, order fulfilment and other value-added services (Rosenbloom, 2011; Mentzer and Williams, 2001; Stern et al., 2012).

**- End of Chapter 4 -**

# Chapter 5 — Power dynamics and relationships

Power in marketing channels is the capacity of one member in the value-creation network to influence another's behaviour, decisions or outcomes, shaping coordination, conflict and the governance of channels (Stern, El Ansary and Coughlan, 2012; Rosenbloom, 2011). Empirical studies establish that power dynamics is influenced by the channel structure, conditions asymmetries, and the intermediaries' control over distribution and market information (Stern et al., 2012; Rosenbloom, 2011).

The literature frames power as a source of leverage to secure favourable terms, but also as a managerial resource that must be exercised with caution, acknowledging long-term relationships, contractual constraints and reputational effects (Pénard, Raynaud and Saussier, 2003; Frazier, 2025). Moreover, a power category appropriate in one setting (for example, legal enforcement in franchising) may be counterproductive in another (for example, coercion undermining retailer commitment amd motivationin omni-channel contexts) (Verhoef, Kannan and Inman, 2015; Rosenbloom, 2011).

Strategic channel management therefore aims to strike the perfect balance between power, influence and cooperation (Stern, El Ansary and Coughlan, 2012; Rosenbloom, 2011). In practice, this balance appears along a spectrum - at one extreme asymmetric dependence occurs when a dominant retailer or franchisor controls critical resources and thus exerts influence over smaller partners. At the other end, mutual interdependence emerges where partners rely on complementary capabilities (logistics, market access, information), producing negotiated power relations and joint problem solving (Mentzer and Williams, 2001; Frazier, 2025). The more formal mechanisms of power include contractual governance which makes expectations legally binding. For example, franchising and long-term supply contracts codify rights and duties as legal obligations (Pénard et al., 2003; Stern et al., 2012).

Channel power can be categorised as *coercive, reward, legal, expert* and *referent* and effective governance typically combines formal contracts with relational mechanisms (information sharing, capability building, joint planning) to sustain cooperation and limit conflict (Stern et al., 2012; Pénard et al., 2003; Frazier, 2025).

## 5.2 Coercive power

Coercive power operates through the credible threat of negative consequences for non-compliance and is exercised when one member can impose sanctions or withhold rewards to compel behaviour (Stern et al., 2012). For example, delisting or shelf-space withdrawal by dominant retailers can force manufacturers to accept unfavourable terms, and similarly, manufacturers or wholesalers can withhold supplies to punish non-compliant resellers (Stern et al., 2012; Rosenbloom, 2011). In franchised systems, contractual penalties such as fines, termination clauses and other enforcement provisions, provide a legalised form of coercion that franchisors can deploy to maintain standards (Pénard et al., 2003). Thus, coercive power is effective when credible and enforceable, yet, it can strain relationships if not used with caution.

## 5.3 Reward power

Reward power motivates partner behaviour through positive inducements, and it commonly takes financial and non-financial forms such as preferential margins, promotional support, cooperative advertising, exclusive territories and priority access to scarce inventory (Stern et al., 2012; Rosenbloom, 2011). Wholesalers and retailers, for example, use margin and promotional incentives to secure shelf placement and sales efforts (Frazier, 2025). Renowned brands deploy selective distribution and bespoke support to reward chosen retailers who can reinforce their brand's equity (Journal of Brand Management, 2014; Kapferer and Bastien, 2012). Reward power also includes assisting a partner during stock shortages, and transferring skills through training, merchandising support and information sharing. This enhances a partner's competitive position and simultaneously increase dependence (Kotler and Keller, 2016; Rosenbloom, 2011).

## 5.4 Legal power

Legal power comes from formal contracts, property rights and regulatory authority that grant enforceable rights and transform negotiated expectations into legally binding obligations (Pénard et al., 2003; Stern et al., 2012). Franchise and distribution contracts typically specify royalties, purchase policies and quality standards, giving franchisors or manufacturers legal recourse for breaches, while exclusive territorial rights and licensing create market control by limiting channel competition and conflict (Pénard et al., 2003; Stern et al., 2012). In addition, regulatory and statutory powers such as compliance requirements and licensing systems can confer leverage on certain channel actors, especially in highly regulated sectors (Rosenbloom, 2011).

## 5.5 Expert power

Expert power arises from specialised knowledge and competence of one partner, and it is exercised in the form of advice, information and capability building as opposed to coercion (Rosenbloom, 2011; Kotler and Keller, 2016). This power category rests on the perceived competence and credibility of the expert partner which naturally demands the voluntary compliance of others (Stern, El-Ansary and Coughlan, 2012; Rosenbloom, 2011). This influence can appears in multiple forms such as detailed product knowledge (for example in design, installation, after-sales service) , data and digital expertise (for example, in analytics and IT integration) and market intelligence supplied by intermediaries that producers lack (Kotler and Keller, 2016; Verhoef, Kannan and Inman, 2015; Rosenbloom, 2011; Ihara, 2020). Similarly, logistics and operations expertise (for example in inventory optimisation, cross-dock operations and route planning) can make 3PLs or large distributors indispensable (Mentzer and Williams, 2001). Finally, specialised knowledge of regulatory requirements, standards and certification can also provide expert power in markets where regulations are crucial (Pénard, Raynaud and Saussier, 2003).

## 5.6 Referent power

Although similar, referent power is slightly different from expert power. Referent power stems from the identification and admiration of channel members who seek affiliation with prestigious brands or respected partners to enhance their own brands and customer appeal (Kapferer and Bastien, 2012; Journal of Brand Management, 2014). In high-end markets and franchised contracts, retailers and franchisees often accept restrictive terms to be associated with prestigious brands, and this association itself provides a competitive advantage (Kapferer and Bastien, 2012). More broadly, smaller partners align with market leaders to gain credibility and customer trust through co-branding or endorsement arrangements (Stern et al., 2012; Kotler and Keller, 2016).

**- End of Chapter 5 -**

# Chapter 6 - Conflict, Cooperation and Competition

## 6.1 Introduction to conflict, cooperation and competition

Cooperation, competition and conflict are interdependent features of channel relationships that must be carefully studied and considered when designing channels. Cooperation involves coordinated actions such as information sharing, joint planning and logistics coordination, while competition denotes rivalrous behaviour for customers, shelf space and margins; conflict arises when divergent interests or expectations lead members to impede one another (Stern, El Ansary and Coughlan, 2012; Rosenbloom, 2011). While intermediaries bridge the gaps between producers and consumers, they could also have clearly conflicting interests (Kotler and Keller, 2016; Rosenbloom, 2011). The literature views this both as a managerial problem to be contained and as a potential source of constructive change. Effective channel governance therefore is a combination of preventive measures (clear contracts, aligned incentives, joint planning) , reactive remedies (mediation, arbitration, legal enforcement) and fostering channel relations and aligned goals through information sharing, capability building and trust (Stern et al., 2012; Pénard, Raynaud and Saussier, 2003; Frazier, 2025).

## 6.2 Causes of conflict

Channel conflict stems from structural, strategic and behavioural sources. The literature identifies several recurring causes such as goal incompatibility, strategic and tactical misalignment, power imbalances, and unclear roles and rights. Each cause can be traced to differences in objectives, information asymmetries, or poorly designed governance mechanisms (Stern et al., 2012; Rosenbloom, 2011).

### 6.2.1 Goal incompatibility :

This happens when channel members pursue conflicting goals. For example, a manufacturer's focus on market coverage conflicting a retailer's focus on profit maximisation. Similarly, a manufacturer seeking rapid market penetration through low pricing may undermine a retailer's premium positioning, and similary, a retailer's focus on sales volume can undermine the exclusive positioning of a premium brand (Journal of Brand Management, 2014; Kapferer and Bastien, 2012).

### 6.2.2 Strategic and tactical misalignment :

Conflict arises when long-term strategies, such as channel design and distribution intensity, are misaligned with short-term operational tactics such as promotional calendars, pricing, etc. For example, a manufacturer's national promotion that is not coordinated with local retailers' inventory plans can cause embarrassing stockouts (Ihara, 2020).

### 6.2.3 Power imbalance :

Asymmetric dependence or concentration of market power enables dominant members to impose terms that smaller partners resist, generating conflict (Stern et al., 2012). For example, large retailers can coerce suppliers into price concessions, and similarly, franchisors' contractual enforcement can provoke disputes with franchisees over royalties and purchase obligations (Pénard et al., 2003; Stern et al., 2012).

### 6.2.4 Unclear roles and rights :

Ambiguity in responsibilities, territorial rights, or ownership of customer relationships produces overlap and disputes. Dual distribution (i.e a manufacturer selling directly while also using independent retailers) can create confusion over customer-ownership. Also, poorly specified franchise agreements can lead divergent and disputed interpretations of service standards (Pénard et al., 2003; Rosenbloom, 2011).

## 6.3 Horizontal conflicts

Horizontal conflicts are those that occur among channel members at the same level (for example, between a retailer and a retailer or a distributor versus a distributor) and typically stems from competition over customers, territories or promotional support (Stern et al., 2012). An example of horizontal conflict is territorial disputes which arise when sales areas overlap or when online and offline marketing activities collide (Rosenbloom, 2011). Likewise, channel cannibalisation takes place when one outlet's sales reduce another's, a common problem in multi-store retailers or when manufacturers open direct online channels (Verhoef, Kannan and Inman, 2015).

These conflicts can often be intensified by uneven allocation of resources or preferential treatment by upstream partners such as manufacturers granting exclusive rights and better margins to some same-level partners, fueling rivalry and resentment among others (Frazier, 2025). Overall, the literature shows that horizontal conflict is a result of competitive overlap and perceived lack of fairness among peers (Stern et al., 2012; Verhoef et al., 2015).

## 6.4 Vertical conflicts

Vertical conflicts are those that take place between different levels of the same channel (for example, a 'manufacturer versus retailer' conflict or a 'franchisor versus franchisee' conflict). For example, empirical analyses of franchised chains also illustrate that vertical conflicts between franchisors and franchisees arise from disagreement over contractual terms (Pénard et al., 2003; Stern et al., 2012) and typically centre on royalties, supply obligations, quality standards and local marketing autonomy (Pénard et al., 2003). An example of a vertical conflict over territory is when manufacturers face resistance from intermediaries while adopting direct channels. (Pénard et al., 2003; Kotler, 2003). Other common causes of vertical conflicts are disagreements over pricing, promotion, territory or control of customer information (Stern et al., 2012; Rosenbloom, 2011). For example, pricing disputes between manufacturers and retailers concerning suggested retail prices, promotional discounts or margin splits are a common source of such conflcts (Kotler and Keller, 2016).

## 6.5 Multichannel conflict

Multichannel conflict emerges when firms deploy multiple channels (direct, indirect, online and offline) with the same target market, generating both horizontal and vertical tensions. For example, Verhoef, Kannan and Inman (2015) discuss conflict-management challenges when transitioning from a multi-channel to an omni-channel strategy. Such challenges and conflicts emerge as direct online sales cannibalise intermediary sales and confuse customers with inconsistent pricing and promises (Verhoef et al., 2015; Kotler and Keller, 2016; Rosenbloom, 2011). This suggests that multichannel strategies require careful policy alignment and transparent rules to minimise conflict and preserve partner trust.

## 6.6 Managing conflict

The literature on conflict-management in channels offers a range of contractual, structural and relations-management mechanisms to prevent, mitigate and resolve channel conflict. These mechanisms typically align strategy, clarifies roles, balances incentives and combines formal and informal dispute-resolution tools (Stern et al., 2012; Pénard et al., 2003; Frazier, 2025). Clarifying distribution strategy, pricing policy and channel roles reduces ambiguity. For example, brands can specify distribution and retailing procedures to align retailer behaviour with brand positioning (Journal of Brand Management, 2014; Kapferer and Bastien, 2012). Where manufacturers sell direct, compensations for retailers such as margin protection, promotional support or exclusive retailer products can limit resistance and conflicts (Pénard et al., 2003; Kotler and Keller, 2016). Likewise, establishing common market goals (e.g. category growth, joint market development) and encouraging employee exchange programmes can foster cooperation among channels (Stern et al., 2012; Mentzer and Williams, 2001). The utilisation of expert power can also help in managing conflicts. Co-optation, for example, is to involve influential channel members into decision structures can ease acceptance, diplomacy and mediation and help resolve disputes (Frazier, 2025; Pénard et al., 2003). Finally, when all other means fail, legal recourse remains a last-resort option to enforce contractual rights (Pénard et al., 2003).

**- End of Chapter 6 -**

# Chapter 7 - Designing Marketing Channels

## 7.1 What is channel design

Channel design is the strategic managerial process of determining the structure, functions and governance of the distribution system through which products and services reach end customers. Designing channels include deciding on channel selection, intermediary roles, responsibility allocation and coordination mechanisms (Rosenbloom, 2011; Kotler *and* Keller, 2016). The literature characterises channel design as balancing market coverage, control and cost to align structures with customer needs, brand strategy, logistics capabilities and organisational resources (Rosenbloom, 2011; Kotler *and* Keller, 2016; Mentzer *and* Williams, 2001; Stern, El Ansary *and* Coughlan, 2012). Effective channel design follows a systematic, multi-criteria approach involving the assessment of customer requirements, the specification of objectives and constraints, the evaluation of channel and intermediary alternatives, and the selection of governance mechanisms that align with the broader strategy and minimise conflict (Rosenbloom, 2011; Kotler *and* Keller, 2016; Stern et al., 2012).

## 7.2 Needs analysis

A needs analysis identifies the customer and market requirements that a channel must satisfy, including service level (speed, availability), assortment, convenience, price sensitivity and after-sales support (Kotler and Keller, 2016; Stern et al., 2012). For example, complex services demand controlled and highly capable channels to meet customer expectations (Kapferer and Bastien, 2012; Kotler and Keller, 2016). Likewise, assortment needs shape the channel form, since customers seeking variety favour superstores and supermarkets while specialist buyers prefer narrow-line, specialised retailers (Rosenbloom, 2011). Geographic reach also influences channel design. For example, dense urban markets typically require many local outlets, whereas sparse markets rely on fewer intermediaries with broader reach (Stern et al., 2012). Moreover, information and after-sales requirements such as installation and service, necessitate intermediaries capable of providing technical support (Kotler and Keller, 2016).

## 7.3 Objectives and constraints

**Channel objectives** translate strategy into measurable distribution goals such as coverage, control, cost and service, shaping channel designs. Accordingly, objectives should reflect segment heterogeneity. For example, in high-end segments, objectives should prioritise control and selective distribution to preserve brand image, whereas in mass-markets, objectives should prioritise wide availability and low cost, favouring intensive distribution (Kapferer and Bastien, 2012; Journal of Brand Management, 2014).

Constraints are also important determinants in channel design. **Internal constraints and capabilities** limit and shape channel designs, forcing businesses to assess their resource constraints and capabilities. This means firms must align channel scope and design with **organisational strengths and weaknesses** For example, companies with robust logistics, IT or direct-sales capabilities may favour direct channels, while those lacking such competencies commonly rely on wholesalers, distributors or third-party logistics providers (3PLs) to fill capability gaps (Rosenbloom, 2011; Mentzer and Williams, 2001). **Product and service constraints** also limit and shape channel design. For example, complex, high-involvement or service-intensive offerings often require direct or value-added intermediary channels to deliver installation, after-sales support and customised service, whereas perishable goods demand rapid logistics and dense retail coverage (Kotler and Keller, 2016; Mentzer and Williams, 2001; Ihara, 2020). Finally, **external constraints** such as regulation, market concentration and infrastructure materially influence channel options (Rosenbloom, 2011). For example, in markets where the infrastructure does not support their own distribution system, global e-commerce platforms will usually partner with third party logistics. According to Rangan (2014), the assessment of organisational competencies, product characteristics and the external environment shapes whether a firm pursues vertically integrated distribution or delegates functions to intermediaries.

## 7.4 Channel considerations in Channel Design

Channel considerations require firms to align structural choices with segment requirements, brand positioning and organisational capabilities, ensuring that the chosen configuration supports both efficiency and responsiveness (Mentzer and Williams, 2001; Frazier, 2025). Therefore, building on the identification of customer needs and the specification of objectives and constraints, channel design must also consider the types and number of channels employed.

When determining whether to use direct, indirect, single or multiple channels , the literature emphasises that firms must balance coverage, control and cost (Rosenbloom, 2011; Stern, El Ansary and Coughlan, 2012). Direct channels provide greater control and closer customer contact, but they demand significant investment in logistics and sales infrastructure. Indirect channels, by contrast, leverage intermediaries to extend reach and reduce resource commitments and capital investments. However, unless properly managed, indirect channels may dilute a brand's positioning (Kotler and Keller, 2016).

The number of channels is equally critical. While single-channel systems simplify governance, multi-channel and omni-channel structures allow firms to reach diverse segments and adapt to changing consumer behaviour, albeit at the cost of increased complexity and potential conflict (Verhoef, Kannan and Inman, 2015).

## 7.5 Intermediary considerations in Channel Design

Closely related to channel structure are decisions about intermediaries — their types, number per level and responsibilities. Intermediaries perform critical functions such as inventory management, credit provision, market intelligence and after-sales service, and their selection must reflect both product characteristics and market conditions (Rosenbloom, 2011; Kotler and Keller, 2016). For example, wholesalers and distributors are often used to achieve scale and geographic reach, while specialised retailers or value-added resellers provide expertise and service for complex or high-involvement products (Mentzer and Williams, 2001). The number of intermediaries per level depends on strategic priorities. While intensive distribution maximises availability through many partners, selective or exclusive distribution limits intermediaries to preserve brand image and control (Kapferer and Bastien, 2012; Journal of Brand Management, 2014). Responsibilities must also be clearly defined, covering logistics, promotion, customer support and information sharing, since ambiguity can generate inefficiencies or conflict (Stern et al., 2012).

## 7.6 Disintermediation

Disintermediation is a critical consideration in channel design, referring to the reduction or elimination of intermediary layers when producers sell directly to end customers. It is often driven by technological change, particularly with the growth of e-commerce, as well as cost pressures and the strategic desire to build direct customer relationships (Kotler, 2003; Rosenbloom, 2011). In full disintermediation, intermediaries are removed entirely, with producers relying on direct online sales or proprietary outlets. More commonly, however, firms adopt partial disintermediation through dual distribution, adding direct channels while retaining intermediaries for certain segments. This approach allows producers to capture margins and customer data while still leveraging intermediaries for reach and service, but requires careful governance, contractual clarity, compensation mechanisms and joint planning (Pénard, Raynaud and Saussier, 2003; Stern, El Ansary and Coughlan, 2012; Kotler and Keller, 2016).

## 7.7 Conventional channels vs non-conventional marketing systems

In designing marketing channels, firms must distinguish between conventional channels and non-conventional systems such as vertical and horizontal marketing systems. The choice among these approaches depends on strategic priorities and resource availability (Stern et al., 2012; Rosenbloom, 2011).

**Conventional channels** consist of networks of independent firms such as manufacturers, wholesalers and retailers, each seeking to maximise its own profit, with coordination occurring primarily through market transactions rather than formal vertical integration (Rosenbloom, 2011; Stern, El Ansary and Coughlan, 2012). These structures can be efficient in fragmented markets, and yet they are often prone to conflict and inefficiency unless supported by contractual or governance mechanisms (Rosenbloom, 2011).

**Vertical marketing systems (VMS)** provide an alternative by unifying successive channel stages — producer, wholesaler and retailer — through ownership, contractual agreement or the power of one member, thereby achieving tighter coordination and reducing transaction costs (Stern et al., 2012). Corporate VMSs integrate stages under single ownership, such as when a manufacturer owns retail outlets, offering strong control but requiring significant capital and managerial capability. Administered VMSs rely on the size and influence of one dominant member, for example a powerful retailer directing suppliers, to achieve coordination without formal ownership (Rosenbloom, 2011). Contractual VMSs, meanwhile, use formal agreements such as franchising or wholesaler-sponsored voluntary chains to align incentives across independent firms (Pénard, Raynaud and Saussier, 2003; Stern et al., 2012). Franchising exemplifies this model, with royalties, purchase obligations and quality standards legally specified to ensure compliance and consistency across the network (Pénard et al., 2003).

**Horizontal marketing systems (HMS)** represent another non-conventional form, involving cooperative arrangements among firms at the same channel level that pool resources to pursue market opportunities, achieve scale or enter new markets (Rosenbloom, 2011). Retailer alliances for joint purchasing, manufacturer co-distribution agreements and joint ventures for market entry are typical examples. These arrangements provide scale and market access without requiring vertical integration, and they allow firms to share risks and capabilities while maintaining independence. As such, horizontal systems complement vertical structures by enabling collaboration among peers, particularly in markets where resource constraints or competitive pressures make cooperation more effective than isolated competition (Rosenbloom, 2011).

**- End of Chapter 7 -**

# Chapter 8 - Synergy, sustainability and value creation

While the previous chapters discussed the operational objectives and considerations of channel design, this concluding chapter discusses the more strategic goals. In order to integrate channels into value-creating networks, the design requires deliberate integration of synergy, aligned values, motivation, and sustainability. Achieving network synergy depends on complementary capabilities, integrated information flows, and governance mechanisms that align incentives and reduce opportunism (Stern et al., 2012; Rosenbloom, 2011). Aligned values and shared priorities among channel partners about service quality, sustainability, brand integrity, and customer treatment can facilitate trust, reduce monitoring costs, and support long-term cooperation (Kotler and Keller, 2016).

## 8.1 Not Just a Channel of Intermediaries

Traditionally, channels were described as sequences of independent firms, performing discrete tasks (such as manufacturing, wholesaling, retailing) who were connected only through market exchanges (Rosenbloom, 2011). This transactional view emphasised operational efficiency but overlooked the deeper relational dynamics. Contemporary scholarship reframes channels as networks of value creation, where partners jointly produce customer value through complementary capabilities and coordinated activities (Mentzer and Williams, 2001). This perspective shifts attention from discrete transactions to ongoing relationships, information flows, and co-creation processes (Stern et al., 2012).

## 8.2 The Synergy of a Value-Creating Network

**Synergy** in channels refers to the additional value produced when partners coordinate activities and pool capabilities so that the whole network performs better than the sum of its parts. This arises from complementary assets, shared information, joint planning, and aligned incentives (Stern et al., 2012; Rosenbloom, 2011). **Operational synergy** is achieved through joint logistics planning, consolidated transportation, and shared warehousing, which reduce system costs and improve service (Mentzer and Williams, 2001). **Marketing synergy** emerges when partners coordinate promotions, category management, and merchandising to expand demand rather than compete destructively. **Knowledge synergy** results from information sharing and joint market intelligence, enabling faster product adaptation and better assortment decisions (Rosenbloom, 2011; Ihara, 2020). And **strategic synergy** combines brand equity and distribution reach, such as co-branding or selective distribution partnerships that enhance the customers' perceived value (Kapferer and Bastien, 2012). Synergies can be institutionalised via governance mechanisms such as contracts, shared KPIs, integrated information systems, and negotiated norms (Pénard et al., 2003). For example, vertical marketing systems formalise cooperation and concentrate control to sustain synergy across the network (Stern et al., 2012).

## 8.3 Training, Monitoring and Evaluation

Training, monitoring, and evaluation are essential mechanisms that sustain the performance of the value creation network and its alignment with strategic goals. **Training** equips intermediaries with the knowledge and skills required to deliver superior service, handle products appropriately, and adopt new technologies or processes (Kotler and Keller, 2016). **Monitoring** ensures compliance with agreed standards and helps identify gaps in execution. This may involve audits, performance reviews, or the use of integrated information systems that track logistics efficiency, sales performance, and customer satisfaction (Rosenbloom, 2011). **Evaluation**, in turn, provides feedback loops that allow partners to adjust strategies, improve processes, and reinforce accountability. For example, in joint evaluation sessions, suppliers and retailers assess outcomes together, foster transparency and strengthen relational trust (Mentzer and Williams, 2001).

## 8.4 The Importance of Motivation

Motivation refers to the incentives and behavioural drivers that lead channel partners to act in ways that support strategic objectives (Stern et al., 2012). Monetary incentives include margins, rebates, and performance bonuses that reward desired behaviours (Frazier, 2025). Non-monetary incentives such as training, technical support, and exclusive product lines enhance partner capabilities and status (Kotler and Keller, 2016). Contractual incentives include long-term agreements, exclusivity clauses, or franchising contracts create predictable returns and stability (Pénard et al., 2003). Other incentives, such as reputation, reciprocal information access, and joint problem-solving, build intrinsic motivation to cooperate (Rosenbloom, 2011). Well structured strategically, the motivation and incentive programme of a business will be able to allign the individual goals of the intermediaries with its strategic value-creation goals.

## 8.5 Integrating Sustainability

Sustainability in channels encompasses environmental, social, and economic dimensions, integrating practices and choices that reduce carbon footprints (Mentzer and Williams, 2001), involves fair contracting, promote supplier and safe working-conditions (Pénard et al., 2003) and are also economically feasible for partners (Ihara, 2020). The use of an integrated information and systems can also ensure transparency and perceived fairness among channel members (Verhoef, Kannan and Inman, 2015). Finally, embedding sustainability within in the value creating network can strategically help a business to differentiate itself.

**- End of Chapter 8 -**

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