CHAPTER 7

MARKETING CHANNELS'S UTILITY

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1. INTRODUCTION

The American Heritage Dictionary defines utility as "the quality or condition of being useful". Utility is further defined as any quality and/or status that provides a product with the capability to satisfy the consumer's wants and needs. Marketing is responsible for creating most of a product's inherent utility.

One of the oldest and most widely employed concepts in marketing is the four utilities concept. It was developed by economists to resolve a problem with the theory labor productivity and was carried over into marketing to define the nature and scope of the field. The concept was later employed to identify the functions of middlemen and subsequently extended to all of the marketing functions. Most recently the four utilities concept has been related to the four P's of marketing management.

Because of its centrality to marketing thought several questions naturally arise. How well does the four utilities concept describe the marketing phenomena to which it has historically been applied? Is the concept robust enough to clarify the phenomena to which it is currently being employed? Does it have the potential for explaining future marketing phenomena to which it may be applied?

The major difficulty in answering these questions is that the four utilities concept is so widely accepted that it is taken for granted. Few writers have examined any aspect of its development. Due largely to neglect the genesis and evolutionary trail of the four utilities concept are generally considered extinct. Most references to its authorship in the marketing literature are vague attributions to "early economists", leading Ellies and Jacobs conclude "The origins of the traditional utilities of form, time, place and possession are apparently now lost in the annals of antiquity." Yet to comprehend the subtleties of the concept it is necessary to start at the beginning as they emerge.

Utilities is generally defined as the capacity to satisfy consumer wants. The economic value of market goods to a consumer is explained by the creation of four types of utility. Form utility is created by making materials into a product that is wanted and is used to explain the contribution of manufacturing to satisfaction. Time utility and Place utility are created by having a product or service available when and where it is wanted, and possession utility is created by transferring ownership to whom it is wanted. These last three types of utility are used to explain the contribution of marketing to satisfaction. Although other types of utility are occasionally mentioned in the literature. The above are generally recognized and traditionally known as the four utilities concept.
2. UTILITIES OF MARKETING CHANNELS

"The channel of distribution is the network of institutions that perform a variety of interrelated and coordinating functions in the movement of goods from producers to consumers."

The value of a product to a consumer, called its utility, is a measure of how much it improves the person's life. There are four types of utilities: Time, place, form and possession. Intermediaries add to time utility by making products accessible when people want them. They create place utility by having goods available where consumers want to shop. Possession utility involves helping people take title to an item, like a car dealer arranging financing. Form utility is when an intermediary makes products more usable or convenient. For example, soda bottlers transform flavored syrups into soft drinks. In short, distribution channel facilitate the movement of goods from producers to the consumers while performing the function of time, place, form and possession utility.

Creates Time Utility:

By focusing on the utility of time, you can ensure that products and services are available when customers need them. Logistics plays an important role in improving the time utility. By developing an efficient supply chain, you can ensure that products are delivered on time. Late delivery could impact your customers’ own productivity and efficiency if your company is part of their supply chain. In service marketing, you can deliver utility by offering service and support 24 hours a day, seven days a week. That kind of service would add real value if it reduced customers’ downtime.

Some products like Woolen clothes and rain coats are used by the consumer in the winter and rainy season respectively. But these goods are produced throughout the year by the manufacturing companies. Some products like food grains are produced by the farmers in the respective season. But the food grains are used by the consumers throughout the year. Distributors facilitate the function of making the goods available to the consumer at the time of utility. So channel of distribution facilitates the time utility. They remove the time barrier i.e. the time of production and the time of consumption.

Creates Place Utility:

Now a day's most companies depend on the channel of distribution to sell their goods to the end users as these distribution channels create place, time and position utilities to the product and effectively does the function of physical distribution. Many products are produced in a manufacturing unit which is used by consumers all over the country. For example, apples are produced in Kashmir and Himachal Pradesh, bur are used by people all over India. Most of the textile mills are located in Mumbai, Ahmedabad and Chennai. But the users of the cloths are spread all over India. Nano Cars are produced in a plant at Gujarat. But the end users of the Nano car spread all over India. So distribution channel is the vital part of the business all over the world. A distribution channel helps in the
movement of goods from producers to the consumer and thus creates place utility to the product.

Channels of Distribution is known as "Place" in the "4 P's" model of Marketing. Distribution Channels provide the utility of place, of having products where the customer wants when the customer wants them. In these days of customer focus and emphasis on competition, the 4 P's model is considered very simplistic, and I've always thought that was probably why Marketers began referring to Place as Channels, to move us away from "The "4 P's" as a description of all of what Marketing is about; nevertheless, "place" is a convenient way to think of the term Channels of Distribution.

The utility of place refers to the availability of a product or service in a location that is convenient to your customers. In business marketing, place can refer to the convenience of your distribution channels or direct sales operations. By improving the utility of place, you are ensuring that your customers will find it convenient to buy your product. If you market services, you can improve utility for your customers by developing self-service facilities on your website, for example. Customers can find answers to straightforward technical problems or post questions on a forum where your team or other customers can provide answers.

Creates Form Utility

Form refers to the product or service you offer your customers. Your marketing team carries out research into customer needs to develop a specification for a product or service. Your product development team can then develop a product or service that meets customers' needs and provides your customers with important business benefits such as lower costs, improved productivity, easier installation or stronger competitive advantage. Your marketing team is creating utility by transforming customers' needs into product or services that deliver added value.

Creates Possession Utility:

The utility of possession gives your customers ownership of a product or service, enabling them to derive benefits in their own business. If you provide customers with a high-performance component, for example, your customers can use that component to improve the performance of their own product. Possession has given them a strong benefit. You can improve the value of possession by offering business customers financing options, for example by leasing products rather than outright purchase.

Distribution channel also make it possible for the customer to buy goods at a price suitable to him. Quality goods costs more. Goods are available in a cheap rate in low quality. Goods in less quantity costs less money. Likewise bulk quantity costs more. Distributors make it possible for the consumers to buy goods as per his purchasing power. So Channel of Distribution facilitate the possession utility.

Creates Convenience Utility:

Marketing channels create convenience utility also. Distribution channel make it possible for the consumer to buy products in the convenient shape, size, style and package. Distributors buys goods in bulk quantity and sell the same to the consumers as per their need and size
and shape. They also pack the goods properly for the protection and convenience. Small packets and big packets are available at the distributor. Consumer can buy goods as per his need.

Finally we can say that Time utility is having products available when consumers want them. Place utility is created by making products available in locations where customers wish to purchase them. Possession utility can occur through ownership or through arrangements that gives the customers the right to use the product, such as a lease or rental agreement. Channel members sometimes create utility by assembling, preparing or otherwise refining the product to suit individual customer needs.

**MARKETING CHANNELS CREATE EXCHANGE UTILITY**

**EXCHANGE PROCESS—**

Exchange processes can persist indefinitely or until some specified condition is met. The natural course of an exchange is affected by the environmental conditions in which it occurs. Each exchange transaction thus differs from all other transactions. For exchange to occur in marketing channels, each party must possess goal preferences, anticipate the outcomes of the exchange, direct its actions toward goal preferences, and be willing to create or accept new behaviors to facilitate attainment of those goals. Value is a quantifiable assessment of the costs and benefits jointly derived from the offering and the exchange process itself. Various types of value can be derived from channel exchange. Exchange value and value relationships change over time. This is why exchange inputs are valued relative to how, when, and where they are obtained. Scarcity also affects the costs of goods and services. The demand for products strongly influences the valuation of outputs. The success of channel members depends in no small measure on their ability to prepare for exchange and adapt to unanticipated changes in supply and demand.

Marketing channels have traditionally been viewed as a bridge between producers and users. However, this perspective fails to capture the complex network of relationships that facilitate marketing flows: the movement of goods, service, information, and so forth between channel members. Marketing and distribution were inextricably intertwined at the beginning of the 20th century. As the Production Era of marketing emerged, the demand for middlemen increased. In a historical sense, these middlemen contributed substantially to the movement of goods and people from rural area to new industrialized urban centers. By the 1940s, when the Selling Era in marketing began, new sort of middlemen – now known as intermediaries – had surfaced in the marketplace. Large retailers expanded further, while smaller retailers generally settled into unserved or underserved market niches. The Selling Era rather quickly gave way to the Marketing Concept Era. The increasingly widespread recognition of the importance of the marketing concept during the latter half of this century has been paralleled by an emerging behavioral thrust in marketing channels.

Since the core of marketing is the exchange process, marketing channels can be viewed as exchange facilitators. This allows marketing channels to be defined as an array of exchange relationships that create customer value in the acquisition, consumption, or disposition of goods and services. Exchange relationships, and thus marketing channels themselves,
emerge from market needs as a way of more efficiently serving market needs. Exchange utility is the sum of all costs and benefits recognized by the exchange parties. Utility can feature form, place, possession, and time dimensions.

This broadened definition of marketing channels offers several advantages: (1) it allows marketing channels to be studied as behavioral systems, (2) it extends the scope of the functions performed within marketing channels to include those involved with usage and disposition, and (3) it illustrates the trade-off of costs and benefits that inevitably occur in exchange relationships.

Firms cannot exist without markets, nor can markets exist without firms. Firms and markets thus share a common purpose. The sense of cooperation deriving from this shared purpose implies that each channel member’s willingness to assist the other should produce an outcome that neither can attain individually. But channel members also incur opportunity costs—embodied by resources which must be surrendered to gain something else—in their efforts to maximize exchange value. Opportunity costs provide the backbone of a concept known as transaction cost analysis (TCA). TCA suggests that firms should pursue the most cost efficient channel arrangements based on cost avoidance. As avoiders, firms constantly try to minimize the costs of market exchanges.

Transaction costs involve all expenses resulting from the negotiating, monitoring, and enforcing activities that are necessary for firms to accomplish their distribution tasks through exchange. Transaction costs also involve the cost of arranging, monitoring, and enforcing contracts. Transaction costs occur whenever firms transfer title of economic assets and enforce their exclusive rights to those assets. In a general sense, transaction costs are simply opportunity costs that feature both fixed and variable components.

Firms can seek to build relationships and channel transactions outside the firm, that is, in the market setting. Transactions can also occur within the firm, that is, within the hierarchy. According to traditional economic theory, firms should expand internally until the marginal cost of an extra transaction outweighs the cost of market exchange. TCA relates to channel design decisions in those circumstances where, for example, a manufacturer performs all distribution tasks for itself through vertical integration as opposed to using one or more intermediaries to perform some or most distribution tasks.

Three conditions must be present for firms to choose hierarchy over market. These conditions are: 1) a high level of environmental uncertainty must exist in the transaction cost assessment; 2) the assets involved must be highly specialized and unique to the exchange process; and 3) the transaction must occur frequently.

Either directly or indirectly, channel members’ transaction costs always relate to information procurement. Exchange information is material knowledge that affects the behaviors, experiences, and outcomes associated with an exchange. The types of information costs that channel members must account for include commodity and labor inputs, market behavior costs, pricing data, monitoring and enforcement agreements, and costs relating to efforts aimed at protecting property rights.

MARKETING CHANNELS FACILITATE EXCHANGE EFFICIENCIES
Marketing intermediaries can reduce the cost of exchanges by efficiently performing certain services or functions. Even if producers and buyers are located in the same city, exchanges have associated costs. As figure shows when 4 buyers seek products from 4 producers, 16
transactions are possible. If 1 intermediary serves both producers and buyers, the number of transactions can be reduced to 8. Intermediaries are specialists in facilitating exchanges. They provide valuable assistance because of their access to and control over important resources used in the proper functioning of marketing channels.

Figure:

**EFFICIENCY IN EXCHANGES PROVIDED BY AN INTERMEDIARY**

Nevertheless, the media, consumers, public officials and other marketers freely criticize intermediaries, especially wholesalers. Critics accuse wholesalers of being inefficient and parasitic. Buyers often wish to make the distribution channel as short as possible, assuming the fewer the intermediaries, the lower the price will be. Because suggestions to eliminate them come from both ends of the marketing channels, wholesalers must be careful to perform only those marketing activities that are truly desired. To survive, they must be more efficient and more customer focused than other marketing institutions.

Critics who suggest eliminating wholesalers would lower customer prices do not recognize that this would not eliminate the need for services, wholesalers provide. Although wholesalers can be eliminated, the function they perform can not. Other channel members would have to perform those functions, and customers would still have to pay for them. In addition all producers would have to deal directly with retailers or customers, meaning every producer would have to keep voluminous records and hire enough personnel to deal with a multitude of customers. Customers might end up paying a great deal more for products because prices would reflect the costs of less efficient channel members.