CHAPTER-8

FIVE OUTPUTS OF CHANNELS

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1. **INTRODUCTION**

Chain of intermediaries, each passing the product down the chain to the next organization, before it finally reaches the consumer or end-user.... This process is known as the 'distribution chain' or the 'channel.' Each of the elements in these chains will have their own specific needs, which the producer must take into account, along with those of the all-important end-user.

In designing the marketing channel, the marketer must understand the service output levels desired by target customers.

**Channels produce five service outputs:**

- **Lot size:** How many "units" does the end user want per transaction? The number of units the channel permits a typical customer to purchase on one occasion. In buying cars for its fleet, Hertz prefers a channel from which it can buy a large lot size; a household wants a channel that permits buying a lot size of one.

- **Waiting time:** The average time customers of that channel wait for receipt of the goods. Customers normally prefer fast delivery channels.

- **Spatial convenience:** The degree to which the marketing channel makes it easy for customers to purchase the product. Chevrolet, for example, offers greater spatial convenience than Cadillac, because there are more Chevrolet dealers. Chevrolet's greater market decentralization helps customers save on transportation and search costs in buying and repairing an automobile.

- **Product variety:** The assortment breadth provided by the marketing channel. Normally, customers prefer a greater assortment because more choices increase the chance of finding what they need.

- **Service backup:** The add-on services (credit, delivery, installation, repairs) provided by the channel. The greater the service backup, the greater the work provided by the channel

The work of Bucklin (1966) contributed to the issue stating that at distribution, four service output levels are important: market decentralization (fragmentation), lot size, assortment, and waiting time. According to the author, firms chose channels that minimized the distribution costs associated with delivery time of these outputs. Delivery time is the main factor that predicts the structure of a channel. According to the author with a very short delivery time, the intermediate inventory is necessary because only in this way can goods be rushed quickly to the consumer. As more the consumer wants the good quickly, the more
the inventory and safety stock is needed. These factors create high costs and an indirect channel is required. But, there are a point that the delivery time allowed to the consumer receives the good is larger, that it becomes possible and cheaper to the manufacturer ship goods directly. As the greater the delivery time the greater are the economies of direct shipment because eliminates the costs of handling, and maintaining the inventory.

Lilien (1979) ran a discriminate analysis with data from a sample of 125 industrial products to study the impact of product and market factors on the selection of direct or indirect distribution. The study showed that the channel varies from direct to indirect based in the following:
Size of the firm. The bigger is the company the better they are able to support a company owned distribution channel.

Size of average order. With the increase of the average order, direct distribution becomes more economical.

Technical-purchase complexity. The greater the importance of technical service to the product’s success, the more likely is direct distribution.

Stage in the product life cycle. New products are better available in direct channels.

Degree of standardization. The complexity of a product is positively related to direct distribution.

Purchase frequency. Frequently purchased products require less selling effort and are therefore less frequently sold directly.

1. SERVICE OUTPUTS OF CHANNELS

A framework for codifying and generalizing how the end users wants to buy a particular product was proposed by Bucklin as a basis for determining channel structure. We use his original theory here as a foundation to our approach for segmenting the market for marketing channel design purposes.

Bucklin, argues that channel system exist and remain viable through time by performing duties that reduce end users search, waiting time, storage and other costs, these benefits are called service outputs of the channel other things being equal (in particular, price and physical product attributes) end users will prefer to deal with a marketing channel that provides a higher level of service outputs. Bucklin specifies four generic service outputs: (1) Bulk breaking (2) Spatial convenience (3) Waiting for delivery time and (4) Product variety. We add two other service outputs to this list: (5) customer service and (6) information provision. While this list is generic can be customized to any particular application, these six service outputs cover the major categories of end users demand for different channel systems.
Bulk breaking refers to the end users' ability to buy their desired (possibly small) number of units of a product or service even though they may be originally produced in large, batch production lot sizes. When the marketing channel system allows end users to buy in small lot sizes, purchases are more easily move directly into consumption, reducing the need for the end user to carry unnecessary inventory. However, if end users must purchase in larger lot sizes (i.e., benefits from less bulk breaking), some disparity between purchasing and consumption patterns will emerge, burdening end users with product handling and storage costs. Consequently, the more bulk breaking the channel does, the smaller the lot size end users can buy and the higher the channel's service output level to them. This, in turn, can lead to a higher price for the end user to cover the costs of providing small lot sizes.

The common practice of charging a lower per unit price for large package sizes in frequently purchased common packaged goods at grocery stores is an example of this pricing phenomenon. Consider how a family buys detergent powder when at home versus when renting a house on vacation. At home, the family is likely to buy the large, economy size of detergent, perhaps at a supermarket or even at a hypermarket, because it can be easily stored in the laundry room at home, and there is no question that, eventually, the family will use up that large bottle of detergent. Naturally, the large bottle is comparatively inexpensive per fluid ounce. But a vacation for a week at a rental cottage, the family prefers a small bottle of detergent—even if it is much more expensive per fluid ounce—because they do not want to end the week with a large amount left over (which they will probably have to leave at the cottage). Most vacationers are not at all surprised or reluctant, to pay a considerably higher price per ounce for the convenience of buying and using a smaller bottle of detergent, and indeed. Unit prices for such products very commonly are much higher in resort towns supermarkets than in supermarkets or hypermarkets serving permanent residents.

Spatial convenience provided by market decentralization of wholesale and/or retail outlets increases consumers' satisfaction by reducing transportation requirements and search costs. Community shopping centers and neighborhood supermarkets, convenience stores, vending machines, and gas stations are but a few examples of channel forms designed to satisfy consumers' demand for spatial convenience. Business buyers value spatial convenience too.

Waiting time is the time period that the end user must wait between ordering and receiving goods or post sale service. The longer the waiting time, the more inconvenient it is for the end-user who is required to plan or predict consumption far in advance. Usually the longer that end users are willing to wait, the more compensation (i.e., the lower the prices) they receive. Conversely, quick delivery is associated with a higher price paid. This trade-off is evident in the way vegetables are sold in major cities in India. They can be purchased at the weekly farmers market known as "Weekly bazaar" and/or at the nearby vegetable vendor. It is not uncommon to find the ratio of the difference in price in the two cases to be as much as 1:4. The neighborhood vegetable vendor charges a premium for enabling convenience and short buying time.

The intensity of demand for quick delivery may also vary between the purchase of original equipment (where it may be lower) versus the purchase of possible service (where it is
frequently very high). Consider, for example, a hospital purchasing a Ultrasound machine. The purchase of the original machine is easily planned for and therefore, the hospital is unlikely to be willing to pay a high price premium for quick delivery of the machine itself. However if the ultrasound machine breaks down, the demand for quick repair service may be very intense, and the hospital may, therefore, be willing to pay a high price for a service contacts that promises speedy service. In such cases, the sophisticated channel manager prices the sale of product versus post sale service very differently to reflect the different concatenation and intensity of demand for service outputs.

Fourth, the wider the breadth or variety or the greater the depth of product assortment available to the end user, the higher the output of the marketing channel system and the higher the overall distribution costs, because offering the greater assortment and variety typically means carrying more inventory. Variety describes generically different classes of goods making up the product offering, that is the breadth of product lines.

Fifth Customer service refers to all aspects of easing the shopping and purchase process for end users as they interact with commercial suppliers or retailers. The type of customer service offered must be sensitive to the targeted end user.

Finally information provision refers to education of end users about product attributes or usage capabilities or pre purchase and post purchase service. In both of our sidebars, the provision of information is a crucial service output to the consumer. In the online bill payment situation, consumers may not even perceive information provision as a demand, but it is certainly a necessary service output to provide in order to explain to consumers the greater value they can enjoy from online bill payment. Some manufacturers and retailers new classify information provision at retail as solutions retailing and view it as crucial in generating new sales as well as upgrade sales from end users.