CHAPTER-11

CHANNEL INTEGRATION AND SYSTEMS

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CHANNEL INTEGRATION AND SYSTEMS

1. INTRODUCTION

In the uncertain fluctuating market of today, it is essential for a company to hold on and face those uncertainties in order to survive. Consumers can be an aid for a company's survival, thereby it is essential for consumers to get the goods of a company whenever and however they need them. Here is where distribution channels come in and give hand. "Channels of distribution are the different paths that goods passed through in moving from the producer to the consumer", (Meyer et al, 1988). With the help of distribution channels, companies are able to overcome the time, place and possession gaps that separate goods and services from the consumers. As said by Aaker (1984), access to an effective and efficient marketing channel is often a key success factor. However, in this competitive era, an understanding of the alternative distribution channels and the trends in their relative importance can be of strategic importance for any company. For example, the growth and importance can be of a self service retail gasoline stations and the comparison growth in the importance of convenience stores such as the 7/11 chain in gasoline retailing has strategic significance to petroleum companies and distributors as well as to firms in food retailing (example adapted from Aaker, 1984). Additionally, because of competition, gaining distribution in some industries can be extremely difficult and costly. Nowadays, even large, established firms have trouble obtaining space on the supermarkets shelves for products with substantial marketing budgets.

As said by Kotler and Armstrong (2001), members of the marketing or distribution perform several functions such as providing information for the company, promotes their goods and services, have contacts with buyers, matching buyers needs, as well as negotiate prices so that goods can be transferred. Some other functions include physical distribution, financing and risk taking.

Companies the world over produce millions of dollars worth of goods for consumers. These goods reach the end-consumer through a maze of distribution systems. Over the last few decades, companies have realized that effective distribution systems can be a source of competitive advantage. Companies can develop their own distribution channels or delegate the functions to different channel members through channel integration. Channel integration involves streamlining the different channel activities and information flow in a manner that leads to mutual benefits to all the partners concerned. The advantages of channel integration are manifold. It reduces transaction costs, improves inventory management, reduces business opportunism, acts as a barrier to new entrants, bridges the time, space, and variety gaps between production and consumption and reduces the business opportunities lost due to stock-outs and delayed delivery.

These are the types of marketing systems.

- CONVENTIONAL DISTRIBUTION CHANNEL
- VERTICAL MARKETING SYSTEM
- HORIZONTAL MARKETING SYSTEM
- MULTI OR HYBRID MARKETING SYSTEM
1. CONVENTIONAL DISTRIBUTION CHANNEL

According to Kotler and Armstrong (2001), a conventional distribution channel is a channel consisting of one or more independent producers, wholesalers, and retailers, each a separate business seeking to maximize its own profits even at the expense of profits for the system as a whole. In this case, intermediaries operate independently or enter into some form of arrangements with suppliers and other intermediaries. Moreover, a conventional channel network tends to be fragmented because manufacturers, wholesalers and retailers bargain aggressively with each other over the prices and others.

Since channel members are separated and acts independently, none of them has much control over the other members. For example, in a conventional distribution channel, manufacturers, distributors and retailers act independently so the manufacturers as the producer of the goods, can’t decide anything for the other members, let’s say, on what price should the distributors and retailers sell, where should they sell, etc. the manufacturers or the other members has no formal authority over each other. Moreover, in a conventional distribution channel, many conflicts may occur since there is the absence of a formal contract and also in most cases, their goals and aims differ. Another weakness of a conventional distribution system is that each and every member tries to reap a lot of profits in order to pursue their own corporate objectives. This may cause drawbacks for the system as each independent firm shows little concern for overall channel performance.

2. VERTICAL MARKETING SYSTEM

"A vertical marketing system is a network of two or more levels of channel members as in the case of arrangement between manufacturers and wholesalers, wholesalers and retailers or between a manufacturer and a number of wholesalers and retailers" (Evangelista et al, 1984). So here, to illustrate the statement above, let’s take an example of a writer. This writer writes his own books, owns the publishing company that publishes the book, creates a website that promotes his books, has a marketing company that advertise and markets his books and he also handles the distribution and shipping of the final product. Here it is clear that the author is aware of all the processes of producing the book and is able to control all the elements. This can be beneficial for the company because if in case a problem occurs in any area, he can quickly tackle it. He knows when the books are going to be printed, when and where it is to be shipped, etc and will be aware of any emergency arising. In this case, we can see that the writer is more informed and more efficient rather than having to deal with publishers, agents, shippers, etc. (example adapted from www.smalltownmarketing.com).

Historically, distribution channels have been loose collections of independent companies, each showing little concern for overall channel performance. These conventional distribution channels have lacked strong leadership and have been troubled by damaging conflict and poor performance. One of the biggest recent channel developments has been the vertical marketing systems that have emerged to challenge conventional marketing channels.

A conventional distribution channel consists of one or more independent producers, wholesalers, and retailers. Each is a separate business seeking to maximize its own profits, even at the expense of profits for the system as a whole. No channel member has much control over the other members, and no formal means exists for assigning roles and
resolving channel conflict. In contrast, a vertical marketing system (VMS) consists of producers, wholesalers, and retailers acting as a unified system. One channel member owns the others, has contracts with them, or wields so much power that they must all cooperate. The VMS can be dominated by the producer, wholesaler, or retailer. Vertical marketing systems came into being to control channel behavior and manage channel conflict.

According to Evangelista, et al (1984), an improvement over the conventional marketing system, is the integrated marketing system which may be vertical or horizontal.

We look now at three major types of VMSs: corporate, contractual, and administered. Each uses a different means for setting up leadership and power in the channel. We now take a closer look at each type of VMS.

**Corporate VMS**

*Kotler and Armstrong, (2001)* defines corporate vertical marketing system as a vertical marketing system that combines successive stages of production and distribution under single ownership - channel leadership is established through common ownership. In other words, it is a group of companies performing different tasks under one possession.

A little-known Italian eyewear maker, Luxottica, sells its many famous eyewear brands— including Giorgio, Armani, Yves Saint Laurent, and Ray-Ban—through the world's largest optical chain, Lens Crafters, which it also owns.

A corporate VMS combines successive stages of production and distribution under single ownership. Coordination and conflict management are attained through regular organizational channels. For example, Sears obtains over 50 percent of its goods from companies that it partly or wholly owns. Giant Food Stores operates an ice-making facility, a soft drink bottling operation, an ice cream plant, and a bakery that supplies Giant stores with everything from bagels to birthday cakes.

E. J. Gallo, the world's largest wine maker, grows its own grapes to produce wine, which it pours into Gallo-made bottles topped with caps produced in Gallo's wholly owned Midcal Aluminum Company plant. Gallo's Fairbanks Trucking Company hauls wine out of Gallo wineries and raw materials back in. The raw materials include lime from Gallo's quarry near Sacramento. Thus, Gallo participates in every aspect of producing and selling "short of whispering in the ear of each imbibers."

**Contractual VMS**

According to Kotler, et al (1999), consists of independent firms at different levels of production and distribution integrating their program on a contractual basis to obtain more economies or sales impact than they could achieve alone. They normally join together to reap profits as well as to increase efficiency in the company.

Coordination and conflict management are attained through contractual agreements among channel members. The franchise organization is the most common type of contractual relationship. There are three types of franchises: manufacturer-sponsored retailer franchise system (Ford Motor Co.), manufacturer-sponsored wholesaler franchise system (Coca-Cola bottlers), and service-firm-sponsored retailer franchise system (McDonald's). The fact that most consumers cannot tell the difference between contractual and corporate VMSs shows how successfully the contractual organizations compete with corporate chains.
In wholesaler-sponsored voluntary chains, wholesalers organize voluntary chains of independent retailers to help them compete with large chain organizations. The wholesaler develops a program in which independent retailers standardize their selling practices and achieve buying economies that let the group compete effectively with chain organizations. In retailer cooperatives, retailers organize a new, jointly owned business to carry on wholesaling and possibly production. Members buy most of their goods through the retailer co-op and plan their advertising jointly. Profits are passed back to members in proportion to their purchases. Examples include Certified Grocers, Associated Grocers, and Ace Hardware. In franchise organizations, a channel member called a franchiser links several stages in the production-distribution process. Almost every kind of business has been franchised—from motels and fast-food restaurants to dental centers and dating services, from wedding consultants and maid services to funeral homes and fitness centers.

There are three forms of franchises. The first form is the manufacturer-sponsored retailer franchise system, as found in the automobile industry. Ford, for example, licenses dealers to sell its cars; the dealers are independent businesspeople who agree to meet various conditions of sales and service. The second type of franchise is the manufacturer-sponsored wholesaler franchise system, as found in the soft drink industry. Coca-Cola, for example, licenses bottlers (wholesalers) in various markets who buy Coca-Cola syrup concentrate and then carbonate, bottle, and sell the finished product to retailers in local markets. The third franchise form is the service-firm-sponsored retailer franchise system, in which a service firm licenses a system of retailers to bring its service to consumers. Examples are found in the auto-rental business (Hertz, Avis); the fast-food service business (McDonald's, Burger King); and the motel business (Holiday Inn, Ramada Inn).

The fact that most consumers cannot tell the difference between contractual and corporate VMSs shows how successfully the contractual organizations compete with corporate chains.

**Administered VMS**

*Coordinates stages of production and distribution through the size and power of one of the parties* (Kotler, et al 1999). In other words, whoever wields the most economic power within the group can force greater cooperation and support from other members of the group.

In detail, an administered VMS is a vertical marketing system that coordinates successive stages of production and distribution, not through common ownership or contractual ties but through the size and power of one of the parties. In an administered VMS, leadership is assumed by one or a few dominant channel members. Manufacturers of a top brand can obtain strong trade cooperation and support from resellers. For example, General Electric, Procter & Gamble, and Kraft can command unusual cooperation from resellers regarding displays, shelf space, promotions, and price policies.

**VERTICAL INTEGRATION SYSTEM**

Vertical integration is the process in which several steps in the production and/or distribution of a product or service are controlled by a single company or entity, in order to increase that company's or entity's power in the marketplace.
The degree to which a firm owns its upstream suppliers and its downstream buyers is referred to as Vertical Integration. Because it can have a significant impact on a business unit's position in its industry with respect to cost, differentiation and other strategic issues. The vertical scope of the firm is an important consideration in co-operate strategy.

Simply said, every single product that you can think of has a big life cycle. While you might recognize the product with the brand name printed on it, many companies are involved in developing that product. These companies are necessarily not part of the brand you see.

Example of vertical integration: while you are relaxing on the beach sipping chilled cold drink, the brand that you see on the bottle is the producer of the drink but not necessarily the maker of the bottles that carry these drinks. This task of creating bottles is outsourced to someone who can do it better and at a cheaper cost. But once the company achieves significant scale it might plan to produce the bottles itself as it might have its own advantages (discussed below). This is what we call vertical integration. The company tries to get more things under their reign to gain more control over the profits the product/service delivers.

**Types of Vertical Integrations:**
There are basically 3 classifications of Vertical Integration namely:
- **Backward integration** – The example discussed above where in the company tries to own an input product company. Like a car company owning a company which makes tires.
- **Forward integration** – Where the business tries to control the post production areas, namely the distribution network. Like a mobile company opening its own Mobile retail chain.
- **Balanced integration** – You guessed it right, a mix of the above two. A balanced strategy to take advantages of both the worlds.

Expansion of activities downstream is referred to as forward integration and expansion upstream is referred to as backward integration. The concept of vertical integration can be visualized using the value chain. Consider a firm whose product are made via an assembly process. Such a firm may consider backward integrating into intermediate manufacturing or forward integrating into distribution, as illustrated below:

**Example of Backward and forward integration**

<table>
<thead>
<tr>
<th>NO INTEGRATION</th>
<th>BACKWARD INTEGRATION</th>
<th>FORWARD INTEGRATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw Material</td>
<td>Raw Material</td>
<td>Raw Material</td>
</tr>
<tr>
<td>Intermediate Manufacturing</td>
<td>Intermediate Manufacturing</td>
<td>Intermediate Manufacturing</td>
</tr>
<tr>
<td>Assembly</td>
<td>Assembly</td>
<td>Assembly</td>
</tr>
<tr>
<td>Distribution</td>
<td>Distribution</td>
<td>Distribution</td>
</tr>
<tr>
<td>End customer</td>
<td>End customer</td>
<td>End customer</td>
</tr>
</tbody>
</table>
Two issues that should be considered when deciding whether to vertically integrate is cost and control. The cost aspect depends on the cost of market transactions between firm versus the cost of administering the same activities internally within a single firm. The second issue is the impact of asset control, which can impact barriers to entry and which can assure co-operation of key value-adding players. The following benefits and drawbacks consider these issues:

**Benefits of Vertical Integration**

Vertical integration potentially offers the following advantages:

- Reduce transportation costs if common ownership results in closer geographic proximity.
- Improve supply chain coordination.
- Provide more opportunities to differentiate by means of increased control over inputs.
- Capture upstream or downstream profit margins.
- Increase entry barriers to potential competitors, for example if the firm can gain sole access to a scarce resource.
- Gain access to downstream distribution channels that otherwise would be inaccessible.
- Facilitate investment in highly specialized assets in which upstream or downstream players may be reluctant to invest.
- Lead to expansion of core competencies.

**Drawbacks of Vertical Integration:**

While some of the benefits of Vertical integration can be quite attractive to the firm, the drawbacks may negate any potential gains. Vertical integration potentially has the following disadvantages:

- Capacity balancing issues. For example, the firm may need to build excess upstream capacity to ensure that its downstream operations have sufficient supply under all demand conditions.
- Potentially higher costs due to low efficiencies resulting from lack of supplier competition.
- Decreased flexibility due to previous upstream or downstream investments.
- Decreased ability to increase product variety if significant in house development is required.
- Developing new core competencies may compromise existing competencies.
- Increased bureaucratic costs.

**Comparison between Conventional Distribution Channel and Vertical Marketing System**

Conventional and vertical marketing systems are two totally different type of distribution system. Many companies nowadays prefer to adopt vertical marketing system rather than the conventional one. This is because vertical marketing system is much more beneficial for companies and the conventional system is outdated increases redundancies.
for companies. Now let us see the difference of the two channels and compare for which one is better and beneficial for organizations today.

Comparison:
Conventional distribution Channel
- Channel members are independently owned
- Unstructured distribution channel
- No contract or agreements available
- Lacks in leadership
- Many conflicts might easily arise
- Weak or poor performance
- Any mistakes or flaws effects only the company

Vertical Marketing System
- Channel members act as a unified system
- Structured distribution channel
- May have contracts or agreements for this arrangement
- One member exercise strong (often formal) leadership
- Helps manage conflict
- Improves performance
- May be forced into arrangements by power differential between members

As we can see from the table above, in the conventional channel members are independently owned whereas in the vertical marketing system, all the members act as an integrated system. This is good for a company because the can minimize costs and at the same time earn revenues. The conventional distribution channel are unstructured whereas in vertical marketing system it is properly structured, thus makes it easier for a company to distribute their product and services. There is no contract whatsoever between the members of the channel because they are all self-regulating and not bonded by any contract. On the other hand, in the vertical marketing system, contract and agreements are needed for the arrangement of this type of marketing channel particularly in a contractual vertical marketing system.

Additionally, there is a strong presence of leadership in vertical marketing system as one member exercise formal leadership. Hence there is proper control of the activities. Whereas in the conventional channel of distribution, there is lack of leadership in the channel. Furthermore, due to confusion, conflicts and problems may arise in a conventional distribution channel because of lack of control and leadership. On the other hand, in a vertical marketing system, the coordination among the members of the channel helps to manage conflicts that may arise. Moreover, this can also improve performance of the whole marketing system. Whereas conventional distribution channel has a weak performance due to conflicts and lack of leadership.

In my opinion, from the above comparison of both the channels, it is clear that vertical marketing system, if practiced properly, will be very advantageous and can provide economies of scale to any company which adopts it.
4. HORIZONTAL MARKETING SYSTEM

A horizontal marketing system is a channel arrangement in which two or more companies at one level join together to follow a new marketing opportunity. By working together, companies can combine their financial, production, or marketing resources to accomplish more than any one company could alone. Companies can join forces with competitors or non competitors. McDonald's places "express" versions of its restaurants in Wal-Mart stores. McDonald's benefits from Wal-Mart's considerable store traffic, while Wal-Mart keeps hungry shoppers from having to go elsewhere to eat.

Another channel development is the horizontal marketing system, in which two or more companies at one level join together to follow a new marketing opportunity. By working together, companies can combine their capital, production capabilities, or marketing resources to accomplish more than any one company could alone. Companies might join forces with competitors or non competitors. They might work with each other on a temporary or permanent basis, or they may create a separate company.

Such channel arrangements also work well globally. For example, because of its excellent coverage of international markets, Nestlé jointly sells General Mills cereal brands in markets outside North America. Coca-Cola and Nestlé formed a joint venture to market ready-to-drink coffee and tea worldwide. Coke provides worldwide experience in marketing and distributing beverages, and Nestlé contributes two established brand names—Nescafé and Nestea. Similarly, Coca-Cola and Procter & Gamble have created distribution systems linking Coca-Cola soft drinks and Pringles potato crisps in global markets. Seiko Watch's distribution partner in Japan, K. Hattori, markets Schick's razors there, giving Schick the leading market share in Japan, despite Gillette's overall strength in many other markets.

HORIZONTAL INTEGRATION SYSTEM

Much more common and simpler than vertical integration, Horizontal integration (also known as lateral integration) simply means a strategy to increase your market share by taking over a similar company. This take over / merger / buyout can be done in the same geography or probably in other countries to increase your reach.

The acquisition of additional business activities at the same level of the value chain is referred to as horizontal integration. This form of expansion contrasts with vertical integration by which the firm expands into upstream or downstream activities. Horizontal growth can be achieved by internal expansion or by external expansion through mergers and acquisitions of firms offering similar products and services. A firm may diversity by growing horizontally into unrelated businesses.

In a horizontal marketing system two or more companies at one level join together to exploit a new marketing opportunity. By joining together, companies can combine their capital, product capabilities, or marketing resources to accomplish more than an one company could working alone. They might work with each other on a temporary or permanent basis. They may even form a separate company. Coca-Cola and Nestle set a joint venture to market ready-to-drink coffee and tea worldwide. Coca provided worldwide experience in marketing and distributing beverages and Nestle contributed two established brand names-Nescafe and Nestea. Such channel arrangements work well globally. The number of such horizontal marketing systems has increased dramatically in recent years.
Some Examples of horizontal integration include:

- The standard oil company’s acquisition of 40 refineries.
- An automobile manufacturer’s acquisition of a sport utility vehicle manufacturer.
- A media company’s ownership of radio, television, newspapers, books and magazines.

Simply said the term horizontal integration describes a type of ownership and control. It is a strategy used by a business or corporation that seeks to sell a type of product in numerous markets. Horizontal integration in marketing is much more common than vertical integration is in production. Horizontal integration occurs when a firm is being taken over by, or merged with, another firm which is in the same industry and in the same stage of production as the merged firm, e.g. a car manufacturer merging with another car manufacturer. In this case both the companies are in the same stage of production and also in the same industry. This process is also known as a "buy out" or "take-over". The goal of horizontal integration is to consolidate like companies and monopolize an industry.

A monopoly created through horizontal integration is called a horizontal monopoly.

A term that is closely related with horizontal integration is horizontal expansion. This is the expansion of a firm within an industry in which it is already active for the purpose of increasing its share of the market for a particular product or service.

Examples of Horizontal Integration are many and available in plenty. Especially in case of the technology industry, where mergers and acquisitions happen in order to increase the reach of an entity.

Advantages of Horizontal Integration

The following are some benefits sought by firms that horizontally integrate:

- **Economies of scale** achieved by selling more of the same product for example, by geographic expansion.
- **Economies of scope** achieved by sharing resources common to different products. Commonly referred to as "synergies".
- Increased market power (over suppliers and downstream channel members).
- Reduction in the cost of international trade by operating factories in foreign markets.

Pitfalls of Horizontal Integration:

Horizontal Integration by acquisition of a competitor will increase a firm’s market share. However, if the industry concentration increases significantly then anti-trust issues may arise. Aside from legal issues, another concern is whether the anticipated economic gains will materialize. Before expanding the scope of the firm through horizontal integration, management should be sure that the imagined benefits are real. Many blenders have been made by firms that broadened their horizontal scope to achieve synergies that did not exist, for example, computer hardware manufacturer who entered the software business on the premise that there were synergies between hardware and software. However, a connections between two products does not necessarily imply realizable economies of scope.

Finally, even when the potential benefits of horizontal integration exist, they do not materialize spontaneously. There must be an explicit horizontal strategy in place. Such
strategies generally do not arise from the bottom up, but rather must be formulated by cooperate management.

DIFFERENCE BETWEEN HORIZONTAL AND VERTICAL INTEGRATION SYSTEM
Horizontal integration is the process of merging similar industries, industries that produce similar products. Horizontal integration would include tactics like buying competing companies that produce the same goods as you do. Vertical integration is the process of buying out suppliers of that particular industry. For example, a steel company would have an advantage over competitors by vertical integration if that company bought out places like coal fields or iron mines, places that competing steel companies rely on to make their steel. This would let you control the raw materials and transportation systems. The main difference is that horizontal integration buys the competing companies while vertical integration aims at the raw material sources necessary to produce that product.

5. MULTICHANNEL MARKETING SYSTEM (HYBRID SYSTEMS)

“A system in which a producer uses more than one channel of distribution, commonly, producers who use multichannel marketing systems operate their own retail stores as well as sell through other wholesalers and retailers, multichannel retailers are also called merchandising conglomerates.”
The term "hybrid marketing channels" refers to a business' use of more than one marketing channel to market its products. This has become more common as companies find that using one channel alone may not be sufficient to stay competitive.
Hybrid marketing channel network is one of the most important and widely used systems among types of VMN (vertical marketing network). Using hybrid marketing channel network, a single firm may set up two or more marketing channels in order to reach multiple marketing segments.

Hybrid marketing systems are multichannel distribution systems in which a single firm sets up two or more marketing channels to reach one or more customer segments. IBM provides a good example of a company that uses ‘such a hybrid channel effectively. For years, IBM sold computers only through its own sales force. However, when the market for small, low-cost computers exploded, this single channel was no longer adequate. To serve the diverse needs of the many segments in the rapidly fragmenting computer market, IBM added 18 new channels in less than 10 years.
Companies facing big and complex markets can derive many benefits by using hybrid channels. With the introduction of each new channel, company’s sales and market coverage expands. The company also gains opportunities to design its products and services to the specific needs of diverse customer segments. But companies may sometime find hybrid channels harder to control. These channels also tend to generate conflict as more channels compete for customers and sales. It is often found that the multichannel marketer’s channels are all under its own ownership and control. Although this arrangement eliminates conflict with outside channel the company “might face internal conflict over how much financial support each channel deserves.

In other way, Multichannel or Hybrid channel systems develop when organizations begin to use a number of channels to sell their products. These channels include a direct sale force, direct mail, telemarketing, catalog selling, and retail selling. The advantages of
using hybrid channels include better product promotion, reduction in transaction costs, increase in market and customer coverage, and the benefit of developing a customized approach to selling and distribution of products. Designing hybrid systems involves identifying the tasks required to fulfill the desired objectives and then segregating the selling tasks and assigning them to the respective channels. Designing hybrid systems involves determining the channel characteristics, identifying the channel mix properties and selecting the number of channels that will bring about the desired outcomes. To effectively manage the hybrid channel system, the manager must be able to identify the source of any conflict, assess its magnitude, observe the reaction of customers and channel members, and analyze the time needed to solve the conflict. Modern information systems have enabled organizations to effectively manage the hybrid channels and avoid overlap of activities and draining of resources.

**Need**
Using hybrid multiple channels expands a company's market reach. This makes a company more competitive. Also, a company can use different market channels to target different types of consumers.

**Examples**
A company could use direct sales as well as distributors as hybrid marketing channels. It could sell through the mail and also in retail outlets. It could use all these marketing channels together as well.

**Advantages**
The use of hybrid marketing channels helps a company expand its market coverage. It also helps to target customers in a way that appeals to them, rather than using one channel to sell to everyone. By selling more products, the company can also cut down on its costs.

Multichannel marketing is offering customers more than one way to buy something - for example, from a Web site as well as in retail stores. For manufacturers, multichannel marketing also includes the use of partners, sometimes known as channels, who market directly to the customer as consultants, re packagers, or retailers. For retailers, advocates claim that, in addition to offering the customer more options, multichannel marketing allows a business more opportunities to interact with customers - each channel can help promote the other channels. Since Web site and phone-in mail orders collect information about the customer that a retail sale may not, these channels make it possible to develop mailing lists for future promotions and branding campaigns. Eddie Bauer is sometimes used as an example of a multichannel marketer that offers "brick, click, and flip" - retail stores, Web site, and catalogs. At least one study says that customers of multichannel companies spend 30% more than customers of one-channel companies. For manufacturers with partner channels, marketing directly from a Web site sometimes raises the problem of how to preserve the partnerships which Web site sales may tend to undercut. Approaches to solving his problem include using the Web site to refer customers to partners and limiting the quantities involved in any one direct sale.

**IMPORTANCE OF CHANNEL INTEGRATION**

- It helps to bridge the gap prevailing between production and consumption:
  - Quantity gap
  - Space gap
• Variety gap
  ➢ Time gap.
  ➢ It streamlines physical and information flow among channel members.
  ➢ Reduces costs involved and leads to greater control.
  ➢ In case of exports it reduces uncertainty.
  ➢ Important component of company's marketing strategy.
  ➢ Optimum utilization of resources.
  ➢ Affects competitive position too.
  ➢ It can be used as a barrier to entry for other competitors.
  ➢ Can be used in a differentiation strategy.
  ➢ Promotional campaigns can be coordinated.

Changing Channel Organization
Changes in technology and the explosive growth of direct and online marketing are having a profound impact on the nature and design of marketing channels. One major trend is toward disintermediation—a big term with a clear message and important consequences. Disintermediation means that more and more, product and service producers are bypassing intermediaries and going directly to final buyers, or that radically new types of channel intermediaries are emerging to displace traditional ones.
Thus, in many industries, traditional intermediaries are dropping by the wayside. For example, companies like Dell Computer are selling directly to final buyers, eliminating retailers from their marketing channels. E-commerce merchants are growing rapidly in number and size, displacing traditional brick-and-mortar retailers. Consumers can buy flowers from 1-800-Flowers.com; books, videos, CDs, toys, and other goods from flipcart.com; Branded clothes, bags etc. from fashionnew.com without ever visiting a store.
Disintermediation presents problems and opportunities for both producers and intermediaries. To avoid being swept aside, traditional intermediaries must find new ways to add value in the supply chain. To remain competitive, product and service producers must develop new channel opportunities, such as Internet and other direct channels. However, developing these new channels often brings them into direct competition with their established channels, resulting in conflict. To ease this problem, companies often look for ways to make going direct a plus for both the company and its channel partners:

Going direct is rarely an all-or-nothing proposition. For example, to trim costs and add business, Hewlett-Packard opened three direct-sales Web sites—Shopping Village (for consumers), HP Commerce Center (for businesses buying from authorized resellers), and Electronic Solutions Now (for existing contract customers). However, to avoid conflicts with its established reseller channels, HP forwards all its Web orders to resellers, who complete the orders, ship the products, and get the commissions. In this way, HP gains the advantages of direct selling but also boosts business for resellers.
However, although this compromise system reduces conflicts, it also creates inefficiencies. "That all sounds great and everyone's happy," says a distribution consultant, "but kicking the customer over to the reseller . . . is a lot more expensive than letting customers order directly from the manufacturer. HP is spending a fair chunk of change to set this up, plus the business partner still wants eight percent margins for getting the product to the customer." To be truly efficient in the long run, HP eventually will have to find ways for its resellers to add value or drop them from the direct channel.