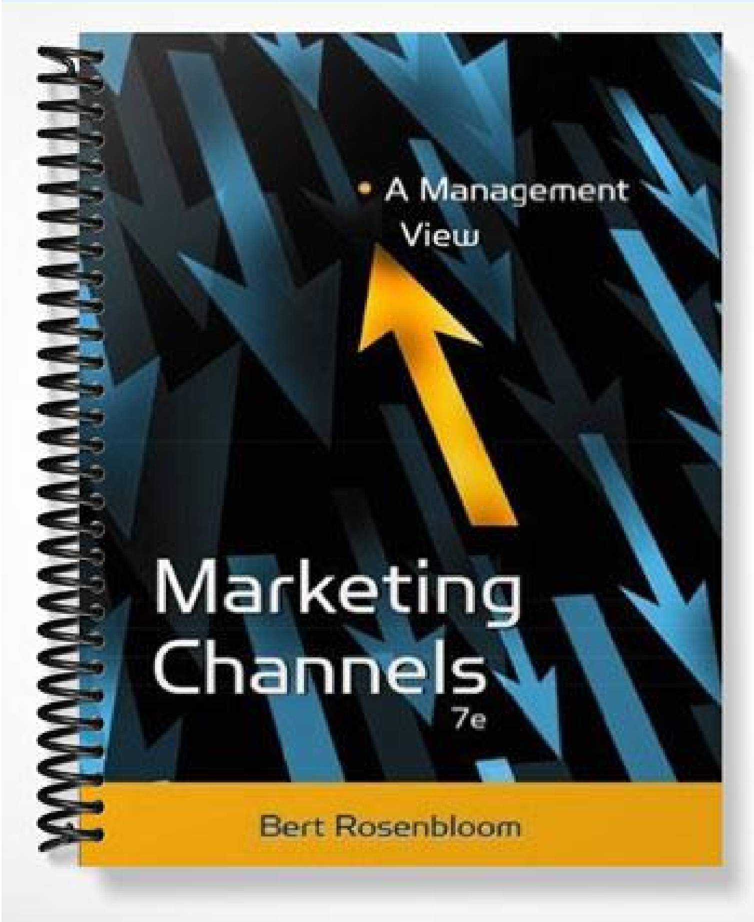
# SOLUTIONS MANUAL



Chapter 2

# THE CHANNEL PARTICIPANTS

## Teaching Notes

This chapter begins with some technical charts depicting the rise of channel members in the distribution process. It would be prudent to spend some additional time on the examination of reading and understanding what these charts are illustrating to the students.

*It also might be helpful to require students to visit one of each of the major retailers found in your community and described in this chapter. This could include a "category killer" retailer, a major supermarket chain, a "box" store chain such as SAM'S® or Costco® and an independent retailer such as a local pizza storeowner. A personal reference point of these major retailers can help to accentuate the key terms and concepts found in this chapter.*

The focus of the chapter is to help the student understand the different components of the channel participants and what services/expertise each member adds to the "value" of the distribution process. Terms are defined but can be confusing to first time marketing students so be sure to spend time letting the students fully understand the differences and terminology.

## Chapter Objectives

This chapter defines the different and various types of channel participants and the distribution tasks they perform. It is important to note to the students that not all channel members perform *all* of these functions and that various terms/nomenclature is assigned to different participants. The chapter defines wholesalers/retailers/brokers/manufacturing agents and other channel members. The chapter makes a point of *excluding* consumers (or final users) as members of the channel discussions. The chapter closes discussing the why, how and implication of wholesale channel concentration and its affect on manufacturers and producers.

**Learning objectives**

1) Familiarization of the classification of the major participants in the marketing channels.
2) Understanding why producers and manufacturers find it necessary to shift many of the distribution tasks to intermediaries.
3) Identify the major types of wholesalers.
4) Awareness of the major trends in wholesaling structure, including patterns on size and concentration of wholesaling.

5) Recognize the value of distribution tasks performed by the majority of wholesalers.
6) Appreciate the complexity of the retail structure and familiarize the student with the different approaches used to classify retailers.
7) Identify the major trends occurring in retail structure with regards to size and concentration.
8) Identify the distribution tasks performed by retailers.
9) Identify the retailer’s changing role in the marketing channel.
10) Appreciate the role played by facilitating agencies in marketing channels.

## Chapter Topics

1) An Overview of the Channel Participants
2) Producers and Manufacturers
3) Intermediaries
4) Retail Intermediaries
5) Facilitating Agencies

## Chapter Outline

### An Overview of Channel Participants

The three basic divisions of the marketing channel are: producers and manufacturers, intermediaries and final users.

- Channel participants are defined as participants that engage in negotiatory functions linked together by the flows of negotiation or ownership.
- Producers and manufacturers and intermediaries are further broken down into wholesale and retail intermediaries and consumer and industrial users.
- Final users are defined as **target markets** and are excluded from further discussions of channel members.

Figure 2.1 illustrates the six more common types of facilitating agents as well as contactual organizations and it defines the scope of the chapter.

### Producers and Manufacturers

Producers and manufacturers consist of firms that are involved in the extracting, growing, or making of products. For the needs of the customers to be satisfied *products must be made available to customers when, where and how they want them.*

This theme is expanded to illustrate that producers and manufacturers often do not have the expertise in distribution as they do in manufacturing or producing.

The section then goes into a detailed explanation regarding the firm Binney & Smith, the makers of Crayola® crayons. Figure 2.2 deals with hypothetical average cost curves for Binney & Smith.

*At this time, it would be a good idea to review cost curves with students as to what concept these curves are designed to illustrate. Students unfamiliar with economics may have a difficult time fully understanding the message without a good explanation of the illustration.*

The message to be derived from Figure 2.2 is that Binney & Smith would never be able to sell enough crayons to individual consumers to absorb the enormous fixed costs associated with the performance of the distribution task.

Intermediaries then because they distribute the products of many producers *are able* to spread their fixed costs and achieve the desired economies of scale. *Producing and manufacturing firms often face high average costs for distribution tasks when they attempt to perform them by themselves.*

## Intermediaries

### Key Terms and Definitions

- Intermediaries: Are independent businesses that assist producers and manufacturers in the performance of negotiatory functions and other distribution tasks.

- Wholesalers: Consist of businesses that are engaged in selling goods for resale or business use to retail, industrial, commercial, institutional, professional, or agricultural firms, as well as to other wholesalers.

### A) Types and Kinds of Wholesalers

Three major types of wholesalers as defined by the *Census of Wholesale Trade.* These are:

1. Merchant wholesalers
2. Agents, brokers, and commission merchants
3. Manufacturer's sales branches and offices

*Figure 2.3 shows a schematic description of these three types.*

1. Merchant Wholesalers are firms engaged primarily in buying, taking title to, usually storing, and physically handling products in relatively large quantities and then reselling the products in smaller quantities to others. They go under many different names such as: wholesaler, jobber, distributor, industrial distributor, supply house, assembler, importer, exporter, and others.

2. Agents, brokers, and commission merchants are independent middlemen who do not take title to the goods in which they deal, but who are actively engaged in the buying

and selling functions on behalf of others. They are usually compensated in the form of commissions on sales or purchases. They also go under other names such as selling agents and import and export agents.

3. Manufacturer's sales branches and offices are owned and operated by manufacturers but are physically separated from the manufacturing plants.

**B) Structure and Trends in Wholesaling**

Figures 2.4 and 2.5 show the trends in wholesaling. The key point to emphasize here is that the *absolute sales of all three types of wholesalers increased substantially over a ten-year period from 1987 – 1997.*

**C) Size and Concentration in Wholesaling**

Most wholesalers (40%) are small businesses with sales less than $1,000,000 in annual revenue.

Figure 2.6 shows the percentages of wholesalers by type of operation. Table 2.2 shows the sales volume of wholesale firms as of 1997.

A key point to emphasize is that due to mergers and acquisitions, the average size of merchant wholesalers and the degree of concentration in the industry is increasing. (Figure 2.7)

**D) Distribution Tasks Performed by Merchant Wholesalers**

Modern well-managed merchant wholesalers perform the following types of distribution tasks for producers and manufacturers:

1. Providing market coverage
2. Making sales contacts
3. Holding inventory
4. Processing orders
5. Gathering market information
6. Offering customer support

1. Market coverage is performed because the market for products consists of many customers spread across large geographical areas. Table 2.4 shows the percentage of manufacturers use of merchant agents.

2. Making sales contact is a valuable service provided because the cost of maintaining an outside sales force for many firms is prohibitively high. This becomes even more apparent if the firm wishes to sell outside of the United States.

3. "Holding" inventory is when the wholesaler takes title to and possession of the producer and manufacturer's product. This can help the producers and manufacturer's financial burden and help their production process.

4. Processing orders is very helpful to producers and manufacturers because many customers purchase in small quantities. The wholesaler can "break down" a large order of product into smaller more manageable pieces.
   - *At this point, you might want to open a discussion as to what effect the processing of orders had to do with the demise of many of the dot-com firms of the early 90s. Students can suggest many reasons why a great many of these firms went out of business. For many, the underlining reason(s) was that the cost of order processing often exceeded the value of the product.*

5. Gathering market information: Wholesalers are close to their customers through frequent sales contacts. As such, they are in a good position to learn about a customer's product or service requirements. Such information then can aid producers and manufacturers in their product planning, pricing, and the development of new products.

6. Customer support is the final distribution task performed for producers and manufacturers on their behalf. Products may need to be assembled, set up or require technical assistance. This allows the wholesaler to provide "value added services" to the customer thus increasing the competitive advantage of one wholesaler over another. This extra support plays a crucial role in making wholesalers vital members of the marketing channel from the standpoint of both the producers and manufacturers and the customers they serve.

In addition to the above services, merchant wholesalers are equally well suited to perform the following distribution tasks for their customers:

1. Assuring product availability
2. Providing customer service
3. Extending credit and financial assistance
4. Offering assortment convenience
5. Breaking bulk
6. Helping customers with advice and technical support

*Figure 2.8 illustrates the distribution tasks performed by merchant wholesalers and their effect on the marketing channel.*

1. Assuring product availability: Assuring that both the quantity and the variety demanded by the customer is available to them when needed.

2. Providing customer service: Services such as delivery, repairs or warranty work saves the customer time and effort.

3. Extending credit and financial assistance: Wholesalers provide this service in two ways. First by extending "open" accounts to customers on products sold to them and second by stocking the needed inventory for the customer, thus reducing the financial and space expenses for the customer.

4. Assortment convenience: By bringing together a variety of products from hundreds of manufacturers, the customer need only place one order for many products.

5. Breaking bulk: Shipping costs dictate the shipment of many products by rail or truckload quantities. Most customers order in single units; thus, the large loads must be “broken” down into single unit sales. A wholesaler provides this service to its customers.

6. Helping customers with advice and technical support: Even the most unsophisticated product may require setup or technical support. The wholesaler, being closer to the customer than either the producer or manufacturer is better able to fulfill this service. This also allows the wholesaler to differentiate its firm from others by these “value-added” services.

An important point here is to add that there are “**limited function wholesalers**” who do not perform many or all of these tasks. Examples include, mail-order wholesalers, and cash-and-carry wholesalers.

**E) Distribution Tasks Performed by Agent Wholesalers**

These wholesalers do not take title to the products they sell and as a rule do not perform as many distribution tasks as a typical merchant wholesaler. They *do* however perform a variety of key functions.

Manufacturer’s agents (manufacturer’s representatives) specialize in performing the market coverage and sales contact and distribution tasks for manufacturers. Manufacturing agents generally represent several manufacturers at the same time and operate in a wide range of product and service categories.

Selling agents are another type of agent wholesaler performing more distribution tasks than manufacturing agents. Selling agents may perform many, if not most, of the other distribution tasks such as: market coverage, sales contacts, order processing, marketing information, product availability and customer services.

*It might be prudent here to point out to students that the terms sales agent, manufacturer’s agent, manufacturer’s representatives, reps or import/export agents are terms that are used interchangeably to refer to all types of agent wholesalers. This is based mostly on historical usage rather than specific function.*

Brokers, the second major category of non-title-taking wholesalers offers another example of the wide deviation between definitions based on performance presented in marketing literature and actual practice. Figure 2.9 lists the distribution tasks commonly performed by food brokers and serves as an example of the wide range of distribution tasks actually performed.

Finally, the third major category of agent wholesalers, the commission merchant, is mainly significant in the agricultural markets. Their distinction from the other merchant agents is that commission merchants typically *take possession* of the goods although not title.

The key points of these definitions of agents is that the terminology used to define an agent is often misleading as to the actual *services* provided by the agent.

## Retail Intermediaries

**Key Term and Definition**

- Retailers: Consist of business firms engaged primarily in selling merchandise for personal or household consumption and rendering services incidental to the sale of goods.

**A) Kinds of Retailers**

Retailers in the United States comprise an extremely complex and diverse conglomeration ranging from mom-and-pop neighborhood stores to giant mass merchandising chains such as Wal-Mart®.

Table 2.5 shows the bases for classifying retailers and Table 2.6 shows the twelve major kinds of business classifications used in the *Census of Retail Trade.*

**B) Structure and Trends in Retailing**

Here it is important to note that in 1997 (latest year for which data are available) there were 1,118,447 retail establishments in the United States. This was a decline from 1992 of approximately 27% *but sales increased from $1.9 trillion to $2.5 trillion dollars a 32% increase in that same time period. This indicates that the size of the retail establishments has increased significantly. (See Table 2.7)*

**C) Concentration in Retailing**

From strictly an economic standpoint, large firms increasingly dominate retailing in the United States.

- Figure 2.10 illustrates that large firms represent only 4 percent of all firms *but* represent 80% of total retail sales.
- Figure 2.11 shows that in 1997, the 50 largest firms accounted for 26% of total retail sales.
- Figure 2.12 shows kinds of retailers where the largest four firms account for *at least* 50% of total sales.
- Table 2.8 lists the 100 largest retailers in the United States.

**D) Retailers' Growing Power in Marketing Channels**

The power and influence of retailers in marketing channels have been growing mainly due to three major developments:

a) Increase in size and thus buying power
b) Application of advanced technologies
c) Use of modern marketing strategies

Since size translates into power, the largest retailers have the capacity to influence the action(s) of other channel members, wholesalers and manufacturers. In many cases, the giant retailers can *literally* dictate to the manufacturers (most manufacturers are considerably smaller than the large retailers) the terms of sale they want and the product offering they require. These large retailers are referred to as "**power retailers**" and "**category killers**".

Growing size and concentration of retailers is the most fundamental reason for greater retailer power in marketing channels. But two other factors, advanced technology and uses of modern marketing strategies are also important.

Modern retailers have become astute followers and ardent users of many new technologies such as the Internet, scanners, sophisticated inventory management software, shelf management software, forecasting, and consumer shopping trip studies.

Perhaps the most exciting technological development being embraced by retailers is their growing use of the Internet to *enhance* the shopping experience. Conventional retailers are integrating Internet-based E-commerce with their store and catalog operations. A new term called **threetailing** has emerged to describe the convergence of in-store, catalog, and online channels.

*Here you may want to add an in-class exercise in which students are asked to explore this new "threetailing" experience themselves by visiting a retailer, such as J.C. Penney's Web site, catalog and bricks and mortar store comparing prices, service levels and selection among these three channels.*

Turning now to retailers' growing emphasis on marketing, a fundamental change has been evolving in thinking by leading retailers about the application of marketing strategy in a retail setting. In the past, retailers have been more supplier (vendor) driven than market driven.

*The chapter now turns to illustrating this point of being market driven by offering the example of Blockbuster Video®, CompUSA® and Fresh Market® showing how these three retailers are using* ***relationship marketing*** *by emphasizing customer training and service to build long-term relationships.*

*This might be a good place to interject regional or local examples of relationship marketing programs in effect at retailers in your market. Students can be asked to visit one of those retailers to get information on the how and the why of the program.*

To sum up, retailers in the United States have become much larger, more concentrated, more technologically adept, and more sophisticated marketers. As a result, they have become far more powerful members of marketing channels and indeed have come to dominate many of the marketing channels.

The implications of the retailer's new position are potentially ominous. A producer or manufacturer's marketing strategies in the areas of product planning and development, pricing, and promotion will be increasingly constrained and shaped by the considerable demands of the powerful retailers.

**F) Distribution Tasks Performed by Retailers**
Retailers are especially suited to the following distribution tasks:

1. Offering manpower and physical facilities that enable producers/manufacturers and wholesalers to have many points of contact with consumers close to their places of residence
2. Providing personal selling, advertising, and display to aid in selling supplier's products
3. Interpreting consumer demand and relaying this information back through the channel
4. Dividing large quantities into consumer-sized lots, thereby providing economies for suppliers and convenience for consumers
5. Offering storage, so that suppliers can have widely dispersed inventories of their products at low cost and enabling consumers to have close access to the products of producers/manufacturers and wholesalers
6. Removing substantial risk from the producer/manufacturer by ordering and accepting delivery in advance of the season

*At this point in the chapter, examples of the retailers Nordstrom® and Marshalls® are given. Perhaps here you can open up the class to a discussion on these retailers and ask the students to "sum up" the retailers' approach to the performance of their distribution tasks.*

In essence, each retail channel member makes its own decisions about how it will approach the performance of distribution tasks. Nevertheless, to remain a *viable* member of the marketing channel, each member must offer "something of value" to its customers as well as its suppliers.

## Facilitating Agencies

### Key Term and Definition

- Facilitating agencies: Are business firms that assist in the performance of distribution tasks other than buying, selling, and transferring title.

By properly allocating distribution tasks to facilitating agencies, the channel manager will have an ancillary structure that is an efficient mechanism for carrying out the firm's distribution objectives.

Some of the more common types of facilitating agencies:

- Transportation agencies such as United Parcel Service (UPS®) and common carriers
- Storage agencies which consist mainly of public warehouses that specialize in the storage of goods on a fee basis
- Order processing agencies which are firms that specialize in order fulfillment tasks
- Advertising agencies which offer the channel member expertise in the development of promotion strategy
- Financial agencies such as banks, finance companies and factors that specialize in discounting accounts receivable
- Insurance companies providing the channel member with means for shifting the risks associated with the industry
- Marketing research firms to help the channel member gain relevant marketing information

## Answers to Review Questions

1. Figure 2.1 is a straightforward representation of the classification of channel participants; students will have little difficulty understanding it. However, asking students to explain it in detail will reinforce their understanding. Even asking a student to reproduce it on the board can be a useful exercise.

   Figure 2.1 follows a general-to-specific format. The starting point is all channel participants–any firm, agency, or individual who in any way participates in the marketing channel. This general group is then broken down into one of two groups: (1) member participants–those participants who perform negotiating functions, and (2) nonmember participants–those who do not perform negotiating functions. The first group (member participants) is divided into three further groups: (1) producers *and* manufacturers, (2) intermediaries, and (3) final users. Finally, the latter two groups (2 and 3) are divided into wholesale intermediaries and retail intermediaries, and consumers and industries respectively. The nonmember participants group is divided into six general types of facilitating agencies, consisting of (1) transportation firms, (2) storage firms, (3) advertising agencies, (4) financial firms, (5) insurance firms, and (6) marketing research firms.

2. Production tasks and distribution tasks may require quite different types of expertise and may have very different economic requirements for efficient performance. Simply, the requisite skills for product design and manufacturing are not the same skills needed to interact with final users for successful sales contacts and information gathering. The processes, systems and facilities necessary to manufacture are not the same as those necessary to process orders and hold inventory. The cost structures for distribution tasks are markedly different from those for production tasks.

The producer or manufacturer that lacks the expertise and/or economies of scale in distribution should shift all or part of the distribution tasks to intermediaries that have the necessary expertise and economies of scope to perform them efficiently.

3. A producer or manufacturer distributing its own products would be spreading the fixed costs of distribution over a relatively small array of products. Intermediaries and facilitating agencies are able to spread those costs across a far larger assortment because they handle products from multiple producers and manufacturers.

   Because the quantity of an individual product decreases as it passes through the channel, the average distribution costs would increase unless that reduction in quantity is offset by enlarging the number of products grouped together for movement through the channel. In short, decreasing individual product quantity is offset by increasing assortment.

4. The basic classification is: (1) merchant wholesalers, (2) agents and brokers, and (3) manufacturer's sales branches. The main criticism of this classification is that it is arbitrary and based more on historical accident than logic. That is, some critics have argued that this classification just "happened" and has been perpetuated with little thought given to its usefulness.

5. Given that trends established since 1948 apparently are varying, this is a most provocative topic. Students might be assigned this question for library research and a short oral or written report. This will give them an opportunity to become familiar with the *Census of Wholesale Trade* and the *Current Business Reports.* Library research will be most informative when the data from the 1997 *Census of Wholesale Trade* are used.

   In answering this question, students should note at least the major patterns discussed in the text:

   - the small business nature of wholesaling
   - the number of wholesalers
   - wholesale sales
   - percentage of wholesale sales attributed to each of the three major classifications of wholesalers
   - average size of merchant wholesalers
   - merger and acquisition activity
   - economic concentration

6. Total wholesale sales were over $4.0 trillion in 1997, an increase in absolute sales of 62% over 1987 sales of $2.5 trillion.

   a. *Merchant Wholesalers:* Between 1987 and 1997, merchant wholesalers' percent of total wholesale sales slipped from 58.6% to 57.5%. This decrease represents a reversal of a trend dating back to 1948 of steady growth.

b. *Manufacturer's Sales Branches and Offices:* Between 1987 and 1997, manufacturers' sales branches and offices' percent of wholesale sales grew from 31.0% to 32.7%. This growth is a reversal of the decline that occurred in the previous decade. That decline represented a reversal of what had been an increasing percentage of wholesale sales between 1948 and 1972.
c. *Agents, Brokers and Commission Merchants:* Between 1987 and 1997, agents, brokers and commission merchants' percentage of wholesale sales decreased slightly from 10.4% to 9.8%. These wholesalers have been in an almost continual decline as a percent of wholesale sales since 1948.

7. Distribution tasks for which *wholesalers* are well suited include:

   For their suppliers:

   a. providing for market coverage for large geographic areas
   b. making sales contact with downstream resellers and industrial customers (this is a particularly important task given the studies that predict that the wholesaler's role in providing sales contacts for manufacturers will grow even larger)
   c. holding inventory
   d. processing orders
   e. gathering market information (because the wholesaler's sales force is a prime source of market information, the importance of this task will increase as the importance of the sales contacts task increases)
   f. offering customer support

   For their customers:

   a. assuring product availability
   b. providing customer service
   c. extending credit and financial assistance
   d. offering assortment convenience
   e. breaking bulk
   f. helping customers with advice and technical support

8. The growth in the average size of retail units and a 32% increase in average sales volume between 1992 and 1997, will have important implications for producing and manufacturing firms:

   - As retailers become larger, their capacity to perform distribution tasks tends to increase. Some of the tasks previously performed by producing and manufacturing firms may be shifted to larger retailing organizations.
   - As retailers become larger, each retailer represents a greater percentage of producers' and manufacturers' sales. Retailers' position in the negotiation flow will be strengthened.
   - Mergers, acquisitions and buyouts are concentrating economic power in the hands of a few large firms. Overall, the increasing average size of retail units is likely to

*reduce* the level of control that producers and manufacturers can exert over retail channel members.

9. Distribution tasks for which *retailers* are especially well suited include:

   a. Offering manpower and physical facilities that enable producers and manufacturers as well as wholesalers to have many points of contact with consumers close to their places of residence.
   b. Providing personal selling, advertising, and display to aid in selling their suppliers' products.
   c. Interpreting consumers' demands and relaying this information back through the channel.
   d. Dividing large quantities into consumer-sized lots, thereby providing economies for their suppliers (by accepting relatively large shipments) and convenience for consumers.
   e. Offering storage so that suppliers can have widely dispersed inventories of their products at low cost and enabling consumers to have close access to the products of producers/manufacturers and wholesalers.
   f. Removing substantial risk from producers, manufacturers, and wholesalers by ordering and accepting delivery in advance of the season.

10. Retailers are getting larger and stronger and they increasingly see their role as that of "buying agents" for their customers rather than "selling agents" for manufacturers or other suppliers. Consequently, retailers will exercise increasing independence in terms of what products they will sell and how they will go about selling them, and manufacturers and other suppliers are likely to find it more and more *difficult* to exercise a high degree of control over retailers.

    For specific ideas as to how manufacturers can create, enhance and utilize their own clout in their marketing channels, students can be assigned Allan Magrath's 1992 article "The Gatekeepers." (Allan J. Magrath, "The Gatekeepers," *Across the Board* [April 1992]: 43-46.) As the article's subtitle states, the gatekeepers are "the huge retail chains and wholesalers that now control the game. But manufacturers still hold 10 trump cards." The article explains these trump cards and uses numerous timely examples that stimulate much class discussion.

## Commentaries on Issues for Discussion

1. This issue is aimed at promoting discussion about the limitations on manufacturers – even large and well-financed ones – when it comes to distributing their products directly to customers at reasonable cost. Wrigley Chewing Gum is recognized in the United States and other countries around the world as a giant and leader in the manufacture of chewing gum. So every student will be familiar with the company and product. Students can conceive of ways in which Wrigley could sell direct and evaluate the viability of those ideas. The value of intermediaries will be apparent after

students have discussed the door-to-door Wrigley's gum sales rep, the "Wrigley's Gum Catalog," the Wrigley gum continuity program, and the Wrigley owned and operated gum vending machines.

By focusing on the great *difficulty* and expense Wrigley would encounter in attempting to distribute its gum to millions of consumers every day, students will see the need for the shifting of distribution tasks to intermediaries.

2. The intention of this issue is to promote discussion about the Censuses of Wholesale and Retail Trade. The specific question concerns the timeliness of the data provided. However, the discussion may go well beyond that to include other issues, such as whether the classifications used in the Censuses are reflective of reality, whether additional information should be included, and whether the Census categories should always remain the same from one period to the next so as to assure comparability over time.

   The timeliness issue is a debatable one. Some may argue that the data really are old by the time they are available. Yet an argument can be made that changes do not occur that rapidly in such aggregated data. Moreover, the practical problem of collecting, analyzing, and reporting such massive amounts of data makes greater timeliness very difficult if not impossible to attain.

   Because the *Current Business Reports* data indicate a significant decline in the rate of sales growth for merchant wholesalers, the release of the *1997 Census of Wholesale Trade* is anticipated eagerly. This data will establish whether the 40 year steady growth of the merchant wholesaler's percentage of wholesale sales has been maintained since 1987. This question can provide a solid basis for discussing the timeliness issue.

3. The purpose of this issue is to make the point that all merchant wholesalers, from the smallest to the largest, fundamentally do the same thing – they perform a set of distribution tasks for manufacturers and customers.

   Students should be encouraged to discuss these distribution tasks for large versus small wholesalers. This could be used for an outside assignment as a kind of case study in which students are assigned the task of finding examples of large and small wholesalers and reporting on their operations.

4. Whether Fleming continues to grow or whether it shrinks is, of course, uncertain but the trend of large manufacturers preferring to deal directly with giant retailers does seem to bode ill for Fleming's future growth prospects. However, it is possible to envision a scenario of continued growth for Fleming if two developments occur: First, if Fleming were able to cut costs and operate at an efficiency level superior to manufacturers and large retailers, both of the channel members may still make use of Fleming's services because it would be in their economic interest to do so. Second, if Fleming can expand its market base into other retail sectors besides the grocery trade,

it may still be able to grow or at any rate keep from shrinking. Both of these strategies could be pursued simultaneously.

5. This question is designed to familiarize the student with the concept of merchant wholesalers and retailer middlemen. It is designed to elicit from the students that as a retail middleman, Office Depot is trying to *increase* the amount of services it provides to a selective target market of its customer base, the small business customer with its business financing offering. Thus, their role changes from one of just a supplier of office products to one of financial resource and/or financial partner with small businesses.

   If successful, this addition of a service will enhance the value-added benefits of shopping at Office Depot versus their major competitors. Thus, Office Depot will increase the level of contact and strengthen the bonds between a small business owner and Office Depot.

   This serves the interests of the small business owner as well. If the financing offered by Office Depot is competitive, the small business owner will be able to reduce their time and expenses by not having to deal with an *additional* vendor to receive financing assistance.

6. The power in the channel has shifted in favor of the retailer in part because of the emergence of large scale, technologically sophisticated and marketing oriented retailers like Home Depot.

   Because the large retailers account for a consequential market share, manufacturers are increasingly dependent upon them. In fact, failure to secure shelf space from the power retailers can mean the death of a product. Many manufacturers now solicit reactions to a new product idea from power retailers before investing in developing the product. They accede to new product ideas arising from these retailers.

   Technologically sophisticated retailers no longer have to take the manufacturers' word for what sells well nor do they have to attempt to apply national data to local store markets. Quite to the contrary, retailers' scanner data report local purchase patterns and thus enable retailers to customize their product offering to local market demand. Scanner data also can be used to study customers' buying patterns so that promotions can be customized. These retailers also use technology to determine a product's profitability and to allot shelf space and inventory dollars accordingly.

   Retailers also are using sophisticated technology to study customers' shopping habits. Some, for example, install infrared sensors in store ceilings to track shopping carts. Data from such marketing research studies are used to determine *product* location. The data also may be used to set slotting fees based on aisle traffic. (See Michael J. McCarthy, "James Bond Hits the Supermarket: Stores Snoop on Shoppers' Habits to Boost Sales," *The Wall Street Journal* [August 25, 1993]: B I, B8.)

Adoption of the marketing concept, however, may be the most consequential reason for this shift in power in the channel. Rather than perceiving themselves as selling agents for their suppliers, these retailers perceive themselves as purchasing agents for their customers. This focus on customers has led the retailers to tailor their product assortment and their merchandising to customer needs.

As cited in the answer to Review Question 10 for this chapter, Allan J. Magrath's article "The Gatekeepers" considers the shift in power in the channel and presents ways for manufacturers to handle the increased power of retailers. (Allan J. Magrath, "The Gatekeepers," *Across the Board* [April 1992]: 43-46.)

7. These arrangements do make sense for the small to medium size producers and manufacturers interested in getting their products on the Web if they fully understand that by such arrangements the firm is placing the firm's customer perception of service quality in the hands of others. That is to say, that the firm is *giving* more control over to the intermediaries in the channel distribution for the sake of reaching a larger audience.

   Advantages:

   - No capital investment in Web-based services.
   - Identification of the retailer (seamless) to the consumer who views their products.
   - Ability to reach a larger target market with more products than might otherwise be possible with bricks and mortar locations.

   Disadvantages:

   - Allows intermediary, the Web-based fulfillment house to control and provide services and products to the consumer, thus placing the firm's potential future in the hands of others not directly connected to the company.
   - Future of the company's business is directly connected to the continued financial health of the Internet or Web fulfillment centers. The financial collapse of the Web fulfillment center could shut down the company's offerings to the consumer with bad results, since the consumer would blame the company and not the "behind the scenes" Web fulfillment center.
   - The company's reputation with the consumer, receiving the right product at the right time, is the responsibility of the Web fulfillment center and not the company. Failure in customer service on the part of the Web fulfillment firm directly influences the company's customer perception of service.