

DESIGNING MARKETING CHANNELS: MULTIPLE MARKETING CHANNELS AT WINERY “MAČKOV PODRUM”

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Original Scientific Paper
doi:10.5937/jouproman6-18694

Abstract: Designing marketing channels in order to penetrate targeted market and to attain desired position in that market requires making various decisions related to the channel structure, selection of channel members and organization of activities that need to be performed in those channels in order to deliver the product/service to customers. This paper is about the process of making decisions involved in designing the marketing channels of the company. Seven phases of the Paradigm of the channel design decision are discussed. Winery “Mačkov podrum” from Irig, Vojvodina, is taken as the example of the company that successfully combines several channels to attain market presence and coverage.

Key words: Marketing channel, marketing channel design, multiple marketing channels, marketing channel strategy, final consumer, intermediary

1. Introduction

Intensive business changes, business innovations, new technologies based on the Internet, shorter lifecycle of products and educated customers, have made it very difficult for a company to attain sustainable competitive advantage in today's global market. Globalization, digitalization, the Internet, mobile phones and social networking have made customers more mobile, educated, informed and connected. Channel managers can no longer rely only on traditional and conventional marketing channels if they want to stay successful and competitive in the market.

“Product differences whether based on technological superiority, design

innovation, quality or brand identity, can be copied, matched or even improved upon by competitors from all over the world in a relatively short period of time.” (Rosenbloom, 2006.). Rosenbloom (2006) argues that, for modern companies, it is very difficult to build sustainable advantage focusing on product differentiation or lower price. Cheap labor, more flexible business politics and laws of some world regions have made these two business strategies easy to overcome. Products can be manufactured, and presented at the market at lower prices, characteristics and design can be imitated and adopted thanks to advanced and innovative technologies thus the implementation of multichannel strategies may be crucial for attaining the sustainable advantage in targeted markets. Offering the advanced and superior value to customers can be done by applying multichannel strategy and synergy of all channels in order to meet customer's needs and standards.

Designing marketing channels is a process that requires making a sequence of choices and decisions related to the structure of marketing channels, channel procedures, the choice of intermediaries, organization of relationships and activities of all channel members and conflict resolution.

„The company’s own field sales force channel, the distributor channel, the sales rep channel, the catalogue/mail order channel, the online channel, the call center channel, and several other may all be needed by the same company to serve customers effectively and efficiently.” (Rosenbloom, 2006; Friedman & Furey, 1999). Channel managers make decisions to select among possible alternatives of channels in order to create efficient channel mix that will serve targeted customers with desired amount of product, in due time, at the location they prefer, at the acceptable price. Making such decisions takes serious researching and planning.

When applying multi-channel strategy, it is of vital importance to create, combine, integrate and coordinate all elements of the channel mix. Multi-channel strategy, its development and implementation implies planning, researching, investment in infrastructure and work organization, educating personnel and making long-term commitment. Problems in delivering the superior value to customers may cause in their deep dissatisfaction and they might leave the company and transfer their transactions and loyalty to competitor’s business.

2. Marketing channels

Marketing channels are, formally, chain of interdependent organizations whose role is to make product and services available for users (Kotler, Keller 2006).

Basically, marketing channels are the routes that products and services go through on their way from producers (manufacturers) to final consumers or business users- a link between producers and final users. The main purpose of marketing channel is to have the right product delivered on the shelf of the store when the customer wants it, and at the price customer is willing to pay for it. Marketing channel manager must decide which intermediary, or more of them, are

the best suitable to deliver the product to the market the producer wishes to enter.

The crucial point of every marketing channel is the *customer* (whether it is the *final customer or business buyer*) and all efforts and activities of channel members need to be focused on the end users and their satisfaction.

The essence of marketing channels is consisted of following components: (Lovreta, Končar, Petković, 2018):

- Organized system in which participants together undertake integrated and/or coordinated actions
- Agencies and institutions that take place as participants in marketing channels
- The functions of marketing channel members
- Connections between suppliers and buyers, and
- Marketing tasks in the process of connecting producers and consumers

It is significant that marketing channels are designed in accordance with the overall marketing and positioning strategy of the company and may be the critical point of differentiation and attractiveness of some company in the market. “In short, a strong channel system is a competitive asset that is not easily replicated by other firms and is, therefore, a strong source of sustainable competitive advantage. Further, building or modifying the channel system involves costly and hard to reverse investments.” (Coughlan, Anderson, Stern, El-Ansary, 2006)

„It is the quality of the channel mix rather than quantity of channels that has the most influence on the size of a firm’s customer base “(Rosenbloom, 2006).

Decisions that the company takes related to marketing channels and their design, length, intensity, members, leadership and conflict resolution are, in fact, crucial for positioning the company in the market, since the company uses its channels to communicate to market participants. Those decisions affect other elements of marketing mix, promotion techniques, product/services prices, market positioning and shape the opinion and attitude of consumers towards the product and the company, and channel managers need to bear that in mind when designing or modifying existing channels.

The *principal participants* in marketing channels are *producers* (manufacturers, originators), *intermediaries* (wholesalers, retailers and specialized intermediaries) and *final users* (individual consumers or business customers). Other specialized participants, involved in transfer of products and services to the spot of their final utilization are: brokers, manufacturer's representatives, agents and other specialized intermediaries (transport, warehouse, merchandising, delivery, assortment, labeling, financing, crediting, insurance, arrangement, promotion, research etc).

Channel members are involved in the performance of *channel flows* or functions in the channel: *physical possession, ownership, promotion, negotiation, financing, risking, ordering, payment and information sharing* (Coughlan et al, 2006). Physical possession, ownership transfer and promotion move forward through the channel, from manufacturer to final consumer. Ordering and payment move upwards the channel, from final consumers to manufacturers. Negotiation, financing, risking and information sharing move in both direction and among different channel members.

According to Profesor Kasturi (1994) of Harvard Business School there are eight generic channel functions:

- *Product information*- customers look for information about specific products (especially new products and technologically complex and changing products). Product customization- if technical modification of products is necessary to meet customer's requirements.
- *Product quality assurance*- when a customer needs the assurance of product's integrity and reliability because of products consequences for the customer's own operations or production.
- *Lot size*- depends on the characteristics of the product and the amount of money that customer needs to spend to buy specific product
- *Assortment*- product need to be available to customer when needed; customer may need various products once, or may need special size or amount of specific product
- *Availability*- customer requires the channel to support a high degree of product availability, especially important for customers whose product usage rates are not easy to predict (like spare parts). Customers are not willing to wait until product is delivered to the store or the office and might rather turn to the competition
- *After sales services*- installation, repair, maintenance and warranty- often the quality and availability of these services influence the initial sale
- *Logistics*- transporting, storing and supplying product to the end user may be complex task such as transshipping or hazardous products transport and increase investments for the company and costs for the customer.

Besides channels that are used to transfer goods and services forward, towards the final users, there are *reverse channels* that are driven in opposite direction, from final consumers towards manufacturers. These channels are used to return unwanted and damaged products (for replacement or reparation) and for recycling (packaging, plastic, glass bottles, organic waste, old and broken technical products etc). Sometimes the company itself uses reverse channels to withdraw products from the market, when there is the malfunction or damage to the line of products discovered after the product was released to the market.

Organizing marketing channels is done in two steps: designing marketing channel in accordance to defined goals and plans, and then structuring channels through determination of adequate relationships between participants in the channel (Lovreta, Končar, Petković, 2018).

3. A paradigm of the channel design decision

Rosenbloom (2013) determines *seven phases in marketing channel design*:

1. *Recognizing the need for a channel design decision*
2. *Setting and coordinating distribution objectives*
3. *Specifying distribution tasks*
4. *Developing possible alternative channel design*
5. *Evaluating the variables affecting channel structure*
6. *Choosing the best channel structure*
7. *Selecting the channel members*

1. Company needs to design new channels or to modify existing channels when it wishes to penetrate the market with some new product or a line of products, when enters a new market with the existing product, if new market is opened, when some components of the marketing mix have been changed, when merger or acquisition took place or a new company

has been established, when company changes intermediary policies or the availability of certain intermediaries has changed, because of new technologies, conflict or behavioural problems within the channel or when a company periodically evaluates the costs and benefits of used channels.

2. Distribution objectives need to be explicitly stated and congruent with other marketing mix areas and with the long-run objectives and strategies of the company, since these decisions affect the image of the company and its ability to generate the sales and customer's loyalty. Channel objectives may include growth in sales in existing markets or by reaching new markets; structuring new channel to achieve new performances such as specific time frame, place, utilities; improving the performance of existing channels; maintenance or improvement of market shares.

3. The third step in designing marketing channels refers to specifying the set of various distribution tasks that need to be carried out in order to deliver the product/service to the customers in the manner that will evoke their satisfaction. In this phase the channel manager needs to gather available information on target market and desired customers segments including their shopping patterns and habits. Tasks such as promotion, product features info, creating offer and special offers, tryouts, orders and specific orders and desires processing, special packaging, inventory maintenance, in-time delivery, transporting and storage, credit and financing, warranty service and product return procedures, repair and technical assistance, need to be detailed and specified to avoid malfunctions in performance of designed marketing channels which could lead to customer's abandoning the company.

4. After all tasks and eventual problems that might emerge in the distribution, are taken into consideration and analyzed, marketing channel managers need to develop alternative channel structures. Taking into consideration market that the company is planning to cover with its products or services, characteristics of target customers segments and the specifics and quality of distribution that it desires to achieve, marketing channel managers need to develop the distribution network by choosing among following channel dimensions: number of channel levels- the length of the channel, intensity at different levels and the type and number of intermediaries that are going to be used at every level of the channel. At this stage it is necessary to consider the specifics of particular industry, market demand level, the market size and the size of target segment, availability of intermediaries and, in accordance to these parameters, to design the channel network that will maximize the profits and minimize overall costs and investments.

The company may sell its products through direct and indirect channels. *Direct channel* represent the type of sales where the company sells its product or service directly to the final consumer of business user, without intermediaries. Direct channel includes direct sales, direct marketing, special stores and infrastructure owned by the manufacturer or the originator of the service and every channel structure where the product or a service is transferred from the manufacturer or the originator to the final user directly. Direct sales is, however, not necessary limited to direct channel since it refers to every direct contact between the seller and the buyer and therefore might represent selling-buying process between the manufacturer and final consumer, the manufacturer and intermediary, the intermediary and the final consumer etc. Direct marketing, on the other hand, refers to all activities where the seller and buyer interact directly: direct

sales via direct mail, telemarketing, mobile marketing, catalogue, vending machine, sales force, interactive television, social networks etc. *Indirect channels* include intermediaries in the process of transferring the product from the manufacturer to final user.

Intensity is related to the number of intermediaries at each level of the channel. *Intensive distribution* refers to situation when the company uses all available outlets, intermediaries and opportunities at each level of the channel to place its product in the market. This strategy enables high brand exposure and makes consumer's convenience a priority (easily accessed products such as milk, newspapers etc. are sold using this strategy). *Selective distribution* enables better control over the marketing channel than intensive distribution and refers to a situation when a company chooses several intermediaries, among many available, to distribute its product. This strategy is used when a company sells its products only in some chosen outlets and may require the intermediary to add some value to the product (specific service, store ambience, customer education etc) When a company chooses only one intermediary to distribute its product to carefully chosen segment of customers (such as specific and expensive products) it is referred to as *exclusive distribution*. This distribution strategy creates strong interdependence between the manufacturer and its intermediary. Since this approach requires the intermediary to promote the product, add a special value to it and to maintain the certain level of sales, it is necessary for the intermediary to have special skills and knowledge to handle all activities that are required by the manufacturer.

In today's overcrowded market and various customer segments companies need to create complex distribution networks in order to reach additional segments of customers and to gain more market coverage.

Multiple marketing channels, international channels, hybrid intermediaries, contractual systems, integrations, corporate systems, strategic alliances, and many different agreements and networks are used by companies all in order to attain competitive advantage and to keep satisfying market position.

The types and number of intermediaries that are going to be used, as well as the number of levels and intensity of marketing channels need to reflect the overall marketing and business strategy and objectives of the company.

5. The channel managers need to evaluate all variables that might affect channel structures. *Market variables, product variables, company variables, intermediary variables, environmental variables and behavioural variables* (Rosenbloom, 2013) are the main categories of variables that might influence channel structure.

Market size, market density, market structure and geography and all characteristics of target customers segments (including their buying patterns and habits) need to be taken into consideration. Further, channel managers need to consider all product characteristics and specifics that might influence the channel structure such as: bulk and weight of the product, perishability, unit value, standardization degree, technical and nontechnical specification, newness and product prestige and image. The size of the company itself, its financial capacity, goals, strategies and objectives and managerial expertise are also factors that need to be analyzed. The availability of intermediaries, costs, services they offer, special skills, business portfolio are to be systematically inspected. External environment variables such as the state of the competition, economic procedures and rules, political and legal constrains, social and cultural factors, technology and all other factors that might affect the effectiveness of channel system are to be

analyzed. The behaviour of channel members and possible conflicts need to be predicted.

6. Channel manager, after careful consideration and expert analysis of all available data, research results and information, chooses the optimal channel structure to cover desired market segments and to maintain the economic viability of the channel. In reality, even though the company undertakes all analysis and calculation, accurate methods for calculating and predicting punctual costs of the chosen channel network and its return of investments. Although several attempts have been made in this direction and some alternative methods have been developed, every one of them lacks punctuality and comprehensiveness.

7. Based on the objectives of distribution, marketing and distribution strategy of the company, background information on the distribution performances of some intermediary, territorial coverage, sales competency, reputation and availability of the intermediaries that operate in certain area, the channel manager makes choices among several alternatives. According to enlisted criteria and requirements, the channel manager needs to gather as many information of previous accomplishments and results, financial situation, references if available, motivation and then to choose members of channel network. At this point it is necessary to establish the channel leader and conflict resolution procedures.

„Marketing channel design should result in a developed distribution system, capable of surviving in competition with differently designed marketing channels. If not, individual participants in a particular marketing channel could define strategies contrary to interests of other members of the marketing channel, which would, in the long run, undoubtedly, lead to business failure both of the marketing channel system as a whole, and the less viable members of the marketing channel.“ (Grubor, 2008)

4. Multiple channels at “Mačkov podrum” winery.

“Mačkov podrum”, a winery from Irig, Serbia, is relatively young and very ambitious winery managed by enthusiastic and professional management, with explicit objectives and vision to gain wide market coverage and to deepen the loyalty of satisfied wine lovers. This company produced its first wine in the year of 2006, and is ever since present at numerous wine festivals, exhibitions and various cultural manifestations all over Serbia. “Mačkov podrum” became very recognizable brand as a result of marketing and promotional efforts of a small, but very dedicated team of experts.

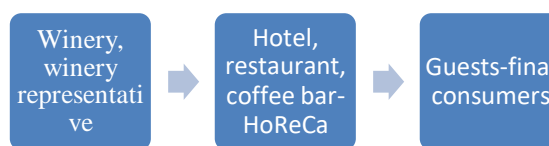
The main production complex, with the capacity of 200 000 bottles of wine, is placed in Irig, Vojvodina surrounded by 32 hectares of vineyards with the finest sorts of grapes grown. This Winery produces 150 000 bottles of the finest wine for Serbian wine market and for export. This winery produces wines labeled as “Mačkov podrum” wines (wines of high quality and middle price category) and in 2016, the line “Sunčani breg“ (wines of high quality and lower price category) was introduced to Serbian wine market.

“Mačkov podrum” winery developed very complex multiple channel system of wine distribution to gain desired territorial coverage and to reach as many customer segments as possible. For the Serbian market the intensive distribution strategy is implemented.

4.1 “Mačkov podrum” marketing channels

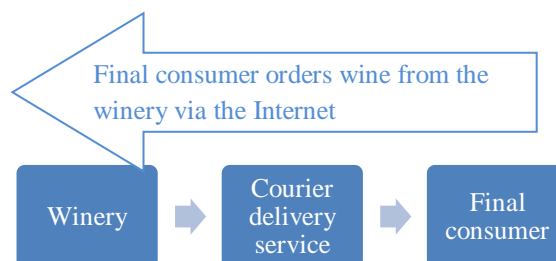
1. The winery- HoReCa- final consumer marketing channel is designed for wines with the label “Mačkov podrum” and it aims to reach the customers of high middle class and high class with a lifestyle that includes the consumption of wines of high quality.

Picture 1: Winery- HoReCa marketing channel



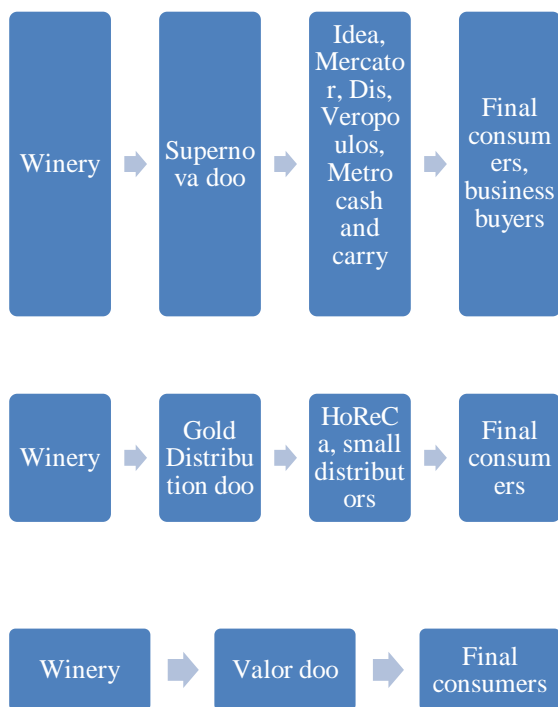
2. The consumer can order wine via the **Internet** (by filling out the online ordering form), but, only 2-3 % of overall orders come through online ordering. One reason for this is a result of the fact that “Mačkov podrum” wine is a specific, exclusive and sensitive product that needs to be smelled, tasted and consumed prior to buying and online marketing channel is not capable of providing the consumer with that unique experience. Another, very important reason, comes from the fact that online paying in Serbia is not developed enough to ensure the safety and efficiency in this line of business. Third, reason is related to previous attempts of this company to develop online marketing channel which resulted in failure. In fact, when the customer orders wine via the Internet, the winery personnel sends ordered amount of wine by courier delivery service. Usual packaging contains 6 bottles of wine. It happened, on several occasions, that some bottles in the package were damaged and in such occasions the courier delivery service did not deliver remaining undamaged bottles to the ordering address, and did not report damage of the package to the winery.

Picture 2: Internet based marketing channel



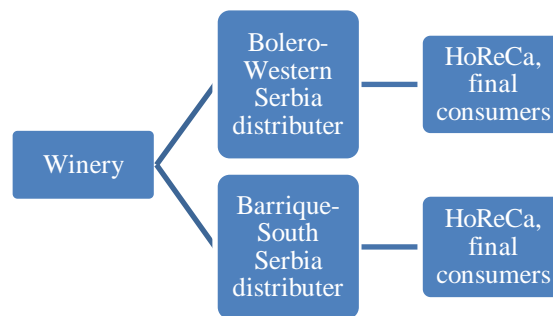
3. Winery operates several channels with different intermediaries (distributors) for different *wine markets in Serbia*. The structure of these channels is a result of availability of intermediaries, their reputation, reliability and their business organization (territorial coverage). The winery operates wine distribution through three big distributors. Supernova doo distributor covers distribution to big wholesalers such as Idea, Mercator, Metro cash and carry, Veropoulos and DIS who then sell wines to final consumers and business buyers. Gold Distribution doo handles distribution to Delhaize group, restaurants and smaller distributors. Valor doo handles wine distribution for Northern Serbia and the rest of Vojvodina.

Picture 3: Winery- big distributor channels



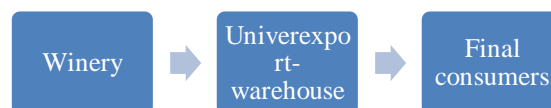
Western Serbia market is covered by Bolero distributor, and Niš, Kruševac and Southern Serbia is covered by Barrique from Kruševac.

Picture 4: Winery- small distributor channels



The winery transports its wines to Univerexport warehouse directly, without any intermediary.

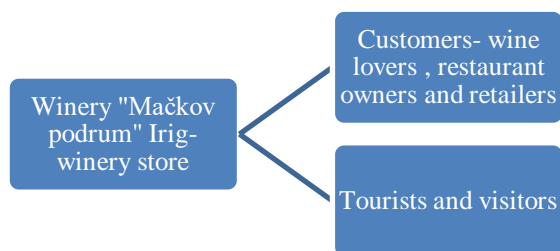
Picture 5: Winery- Univerexport channel



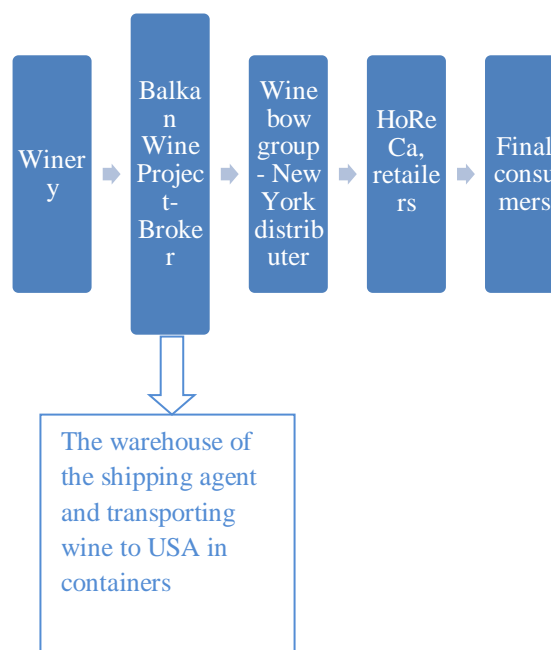
4. Customers (consumers- wine lovers and business buyers- small restaurants and retailers) may purchase wines *in the winery store* at Irig. This is a *direct channel* used by the winery to sell its wines directly to customers, but is also used to obtain more information about the customers experiences and wishes.

Another activity is also very developed at winery - *tourism*. Customers are invited to spend some time in the winery, to explore the vineyards, to get familiar with the wine production process, to take part in harvesting of grapes and to taste wines. This channel generated the increase in sales and is very appreciated by the management of the winery.

Picture 6: In Winery sales and tourism- direct channels



Picture 7: The export channel to USA market



5. “Mačkov podrum” company *exports* its wine to USA for nine years. Previously some deliveries were made to markets of Poland, Great Britain, Switzerland, Slovenia, Austria, Montenegro and Bosnia and Herzegovina, but because of the lack of experienced, devoted and reliable distributors in these countries management of this winery left these plans for future, since the development of continual delivery system and the image of reliable and responsible business partner is the imperative of this company. The winery exports its brand “Portugizer” to the market of USA. This wine is sold under the name of “Agrina Portugieser” with the different label (in accordance with USA market requirements) with the origin specification. Wine is exported with the participation of Balkan Wine Project broker, who was granted the exclusive right to handle the “Agrina Portugieser” distribution for the USA, who places shipment in the warehouse of the shipping agent and then uses the transport company to ship the cargo to New York. Winebow group accepts the shipment and places it in the warehouse. From there the wine “Agrina Portugieser” is distributed to hotels, restaurants, coffee bars and retailers.

„Customers all over the globe are demanding more channel options for gaining access to product and services while technology has made it possible and economically feasible for firms to offer a wider array of channels, especially Internet-based online channels.“ (Rosenbloom, 20016) In order to attain and maintain competitive advantage at dynamic and ever-changing global market and to deepen customer’s devotion, it is the imperative for companies to integrate new technologies and online channels in their multichannel mix, to create synergy and to improve cooperation and trust among all channel members, to resolve conflict within the channels more efficiently, too coordinate and to control their multiple channels and to provide more effective service to customers.

„What implication does the channel flows paradigm hold for modern global management? Actually it is a very straightforward and pragmatic one: global marketing requires more efficient and more coordinated channel flows.

Fortunately the awesome technology provided by the Internet and worldwide web has made meeting this challenge much more feasible, particularly because with the exception of physical products, all eight channel flows can be implemented via the Internet. Managing the ownership, promotion, negotiation, financing, risk, ordering and payment flows mainly via the Internet is commonplace today in both business-to-consumers (B2C) and business-to-business (B2B markets).“ (Rosenblom, 2010)

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