

E-Marketing/7E

Chapter 11

The Internet for Distribution

Chapter 11 Objectives

- After reading Chapter 11, you will be able to:
 - Describe the three major functions of a distribution channel.
 - Explain how the internet is affecting distribution channel length.
 - Discuss trends in supply chain management and power relationships among channel players.
 - Outline the major models used by online channel members.
 - Distinguish among e-commerce, m-commerce, social commerce, and F-commerce.
 - Highlight how companies can use distribution channel metrics.

The Zappos Story

- Zappos is the world's largest online shoe store.
 - Sales over \$1 billion in 2009.
 - Part of amazon.com since November 2009.
 - Operates as a wholly owned subsidiary in Henderson, NV.
- Success factors include a culture of outstanding customer service.
- Other success factors: great search engine marketing, strong word of mouth, astute competitiveness, and repeat customers.

Distribution Channel Overview

- A distribution channel is a group of interdependent firms that transfer product and information from the supplier to the consumer.
 - Producers
 - Intermediaries
 - Buyers
- The structure of the channel can make or impede opportunities for marketing on the internet.

Online Channel Intermediaries

- Wholesalers buy products from the manufacturer and resell them to retailers.
- Retailers buy products from manufacturers or wholesalers and sell to consumers.
- Brokers facilitate transactions between buyers and sellers.
- Agents may represent either the buyer or seller.
 - Manufacturer's agents represent the seller.
 - Purchasing agents represent the buyer.

E-Business Models

- | | |
|----------------------------------|--|
| 1. Content sponsorship | |
| 2. Infomediary | |
| 3. Intermediaries | |
| Broker: | Online exchange Online auction |
| Agent: | Agent models representing sellers Selling agent (affiliate program) Manufacturer's agent (catalog aggregator) Agent models representing buyers (purchasing agent) Shopping agent Reverse auction Buyer cooperative |
| Online retailer (e-commerce): | Digital products Tangible products Direct distribution |

Content Sponsorship

- In this model firms create Web sites, attract traffic, and sell advertising.
- All the major portals, Google, Yahoo!, and MSN, utilize this model.
- Online magazines, newspapers, Pandora Radio, and Craigslist use the content sponsorship model.
- Content sponsorship is often used in combination with other models to generate multiple revenue streams.



Infomediary

- An infomediary is an online organization that aggregates and distributes information.
- Market research firms and product review sites are examples of infomediaries.
- Some infomediaries compensate consumers for sharing demographic and psychographic information and receiving ads targeted to their interests.



Intermediary Models

- Three intermediary models are in common use on the internet.
 - Brokerage models.
 - Online exchange
 - Online auction
 - Agent models for sellers and buyers.
 - Online retailing.

Brokerage Models

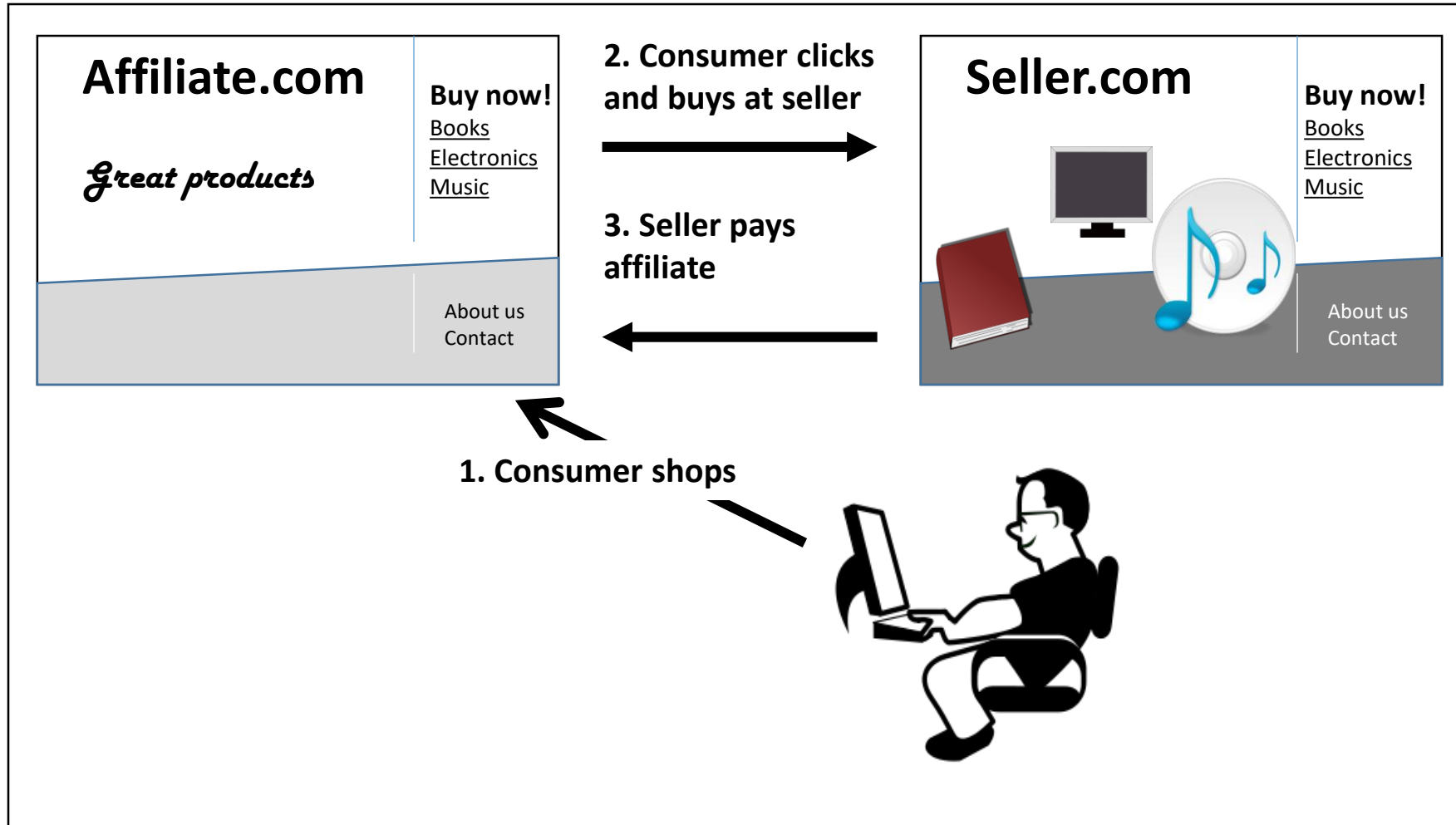
- The broker creates a market in which buyers and sellers negotiate and complete transactions.
 - Online Exchanges, E*Trade, Schwab and Ameritrade, allow customers to place trades online without a broker.
 - Autobytel.com is a vehicle exchange and alibaba.com is a global marketplace.
- The B2B market has also spawned brokerages.
 - Converge is the leading anonymous exchange for global electronics.
 - Guru.com is an exchange for professional talent.
- Online auctions are available in the B2B (uBid), B2C (priceline), and C2C (ebay) markets.



Agent Models

- May represent sellers or buyers, depending on who pays their fee.
- Agent models that represent sellers include:
 - Selling agents, such as affiliate programs.
 - Manufacturer's agents represent more than one seller.
 - Metamediaries: Edmunds.com and TheKnot.com.
 - Virtual malls: Yahoo! Shopping, Amazon.

Affiliate Programs



Agent Models, cont.

- Agent models that represent buyers include:
 - Shopping agents
 - BizRate, PriceScan, and CNET Shopper.
 - Reverse auctions
 - Priceline was the first major player in reverse auctions.
 - Buyer Cooperatives (buyer aggregators) pool many buyers together to drive down prices.
 - Groupon and LivingSocial.



Online Retailing: E-Commerce

- In the e-commerce model, merchants, such as Zappos, set up storefronts online and sell to businesses and consumers.
- Online companies can sell a wider and deeper assortment of products in smaller quantities than offline stores because they are not bound by space constraints.
 - The “long tail” refers to the ability to increase revenue by selling small quantities of large numbers of products profitably online.

Shopping Cart Abandonment

65% - 75% average shopping cart abandonment¹



WHY?



- High shipping prices (44% - 72%)¹
- Comparison shopping (61%)
- Product prices too high (25% - 43%)
- Site requires a lot of personal information (35%)
- Site requires registration first (34%)
- Complex/confusing checkout process (11% - 27%)
- Not ready to purchase (41% - 56%)
- Slow Web site/long process (11%/41%)

2.2 average conversion rate²

M-Commerce

- Mobile commerce occurs when consumers make a transaction with a smartphone or other mobile device.
 - M-commerce is a subset of e-commerce.
 - 77% of U.S. population has a mobile phone; half are smartphones that enable m-commerce.
 - M-commerce was projected to reach \$11.6 billion in 2012, 5.9% of all e-commerce sales.

Square Card Facilitates M-Commerce

The image shows the Square mobile app interface. At the top, there are four navigation options: the Square logo, Square Register, Square Wallet, and a Sign In button. The main content area features a background image of a hand holding a Square card reader over a smartphone. The smartphone screen displays a transaction of \$28.50 from Golden Farms Money to Orange Blossom Honey. Overlaid on the left side of the image is a sign-up form with the following text and fields:

Start accepting credit cards today.

Sign up and we'll mail you a free Mobile Card Reader.

Email address

Password Confirm password

[Get Free Card Reader](#)

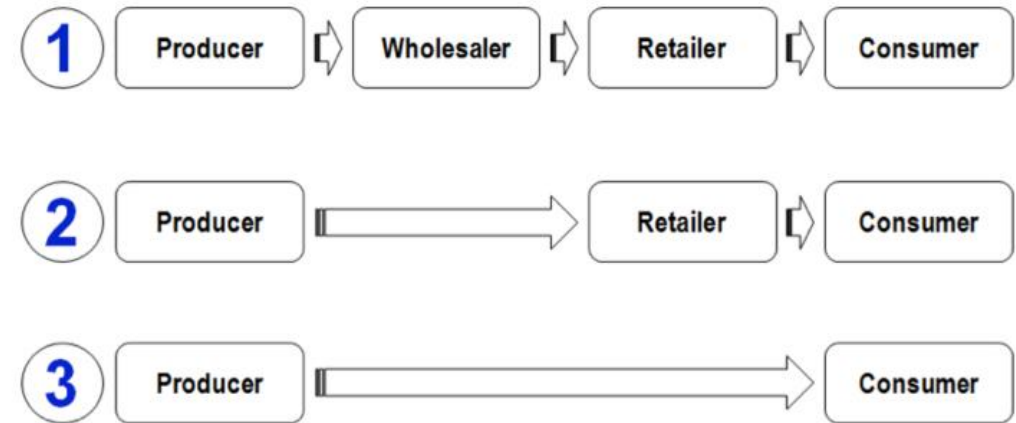
2.75% per swipe, no additional fees, and next day deposits ▶

Social Commerce

- Social commerce uses social media and consumer interactions to facilitate online sales.
- Product rating, recommendation and review sites allow for the sharing aspect critical to social commerce.
- 18-23% of Pinterest users also visited online retailers.
- Social sign-in
 - Over half of social media users prefer to use Facebook to sign into a Web site.

Distribution Channel Length and Functions

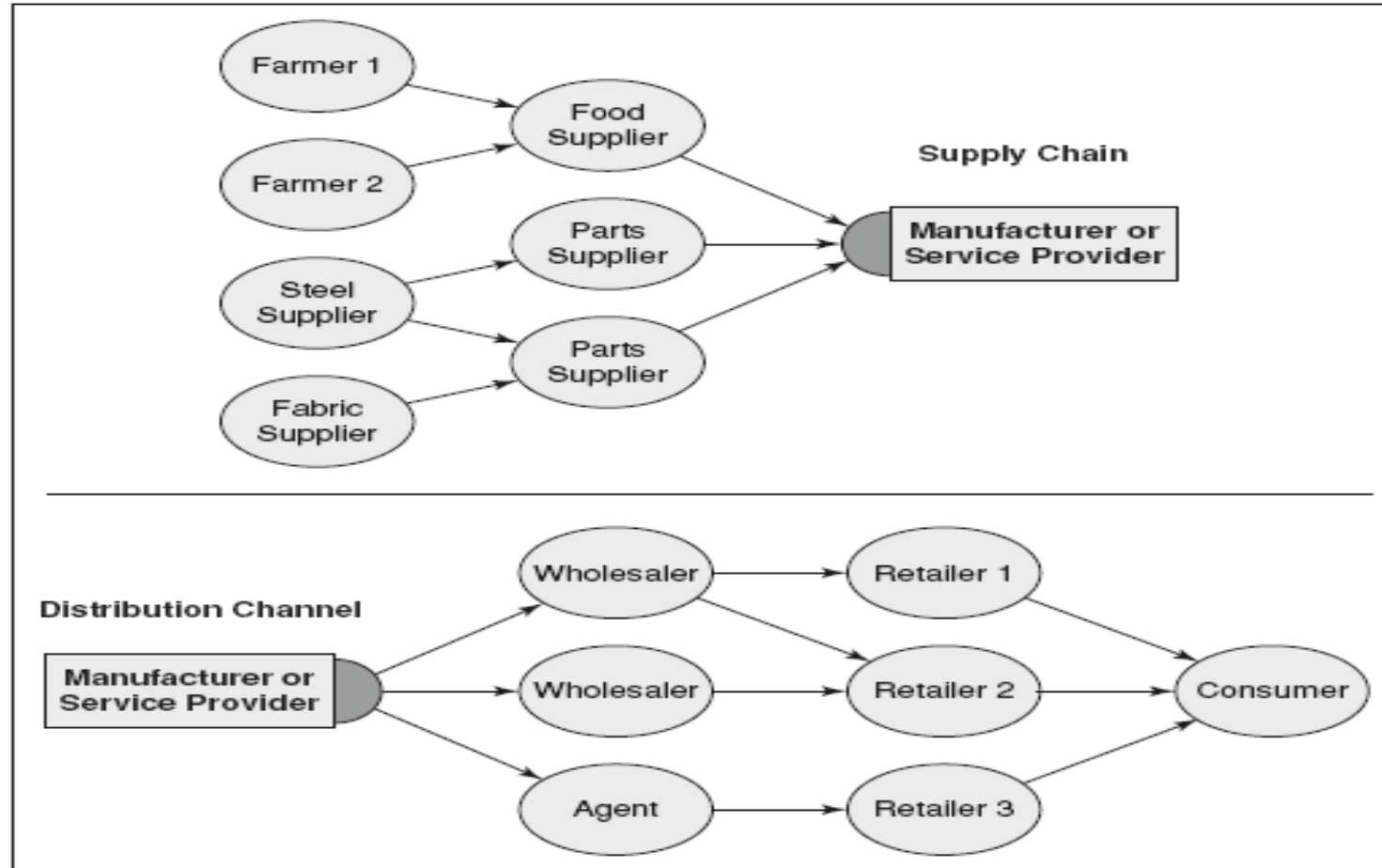
- Channel length refers to the number of intermediaries between the supplier and the consumer.
- Direct distribution channels have no intermediaries.
- Indirect distribution channels have one or more intermediaries.
- Eliminating intermediaries can potentially reduce costs.
 - **Disintermediation** describes the process of eliminating traditional intermediaries.



Distribution System

- There are 3 ways to define the scope of the channel as a system.
 - Distribution functions that are downstream from the manufacturer to the consumer.
 - The supply chain, upstream from the manufacturer, working backward to raw materials.
 - Consider the supply chain, manufacturer, and distribution channel as an integrated system called the value chain or *integrated logistics*.

New Definition of Supply chain

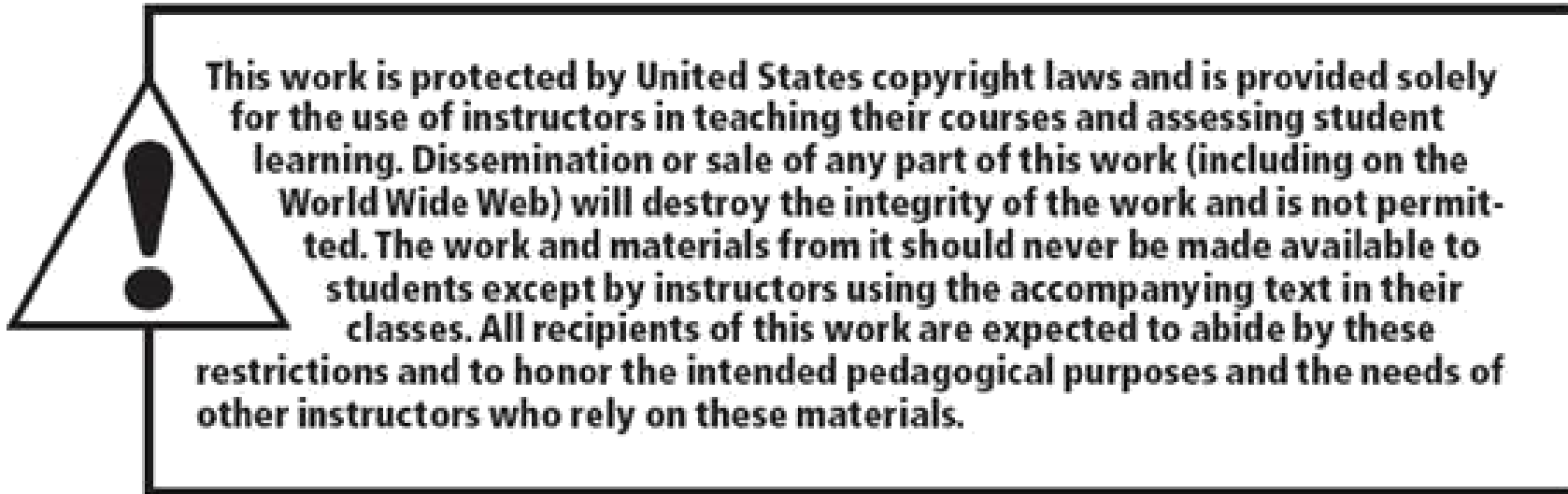


Supply Chain Management

- Supply chain management (SCM) refers to the coordination of the flow of material, information, and finance.
- Key functions of supply chain management are continuous replenishment and build to order to help eliminate inventory.
- Supply chain participants use enterprise resource planning (ERP) systems to manage inventory and processes.

Channel Management and Power

- Channel management requires coordination, communication, and control to avoid conflict among channel members.
- **Electronic data interchange (EDI)** is effective for establishing structural relationships among businesses.
- The goal is to create an internet-based, open system so that suppliers and buyers can seamlessly integrate their systems.



All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the publisher. Printed in the United States of America.

Copyright © 2014 Pearson Education, Inc.
Publishing as Prentice Hall