

Fashion Marketing – Session 6

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Building effective distribution networks

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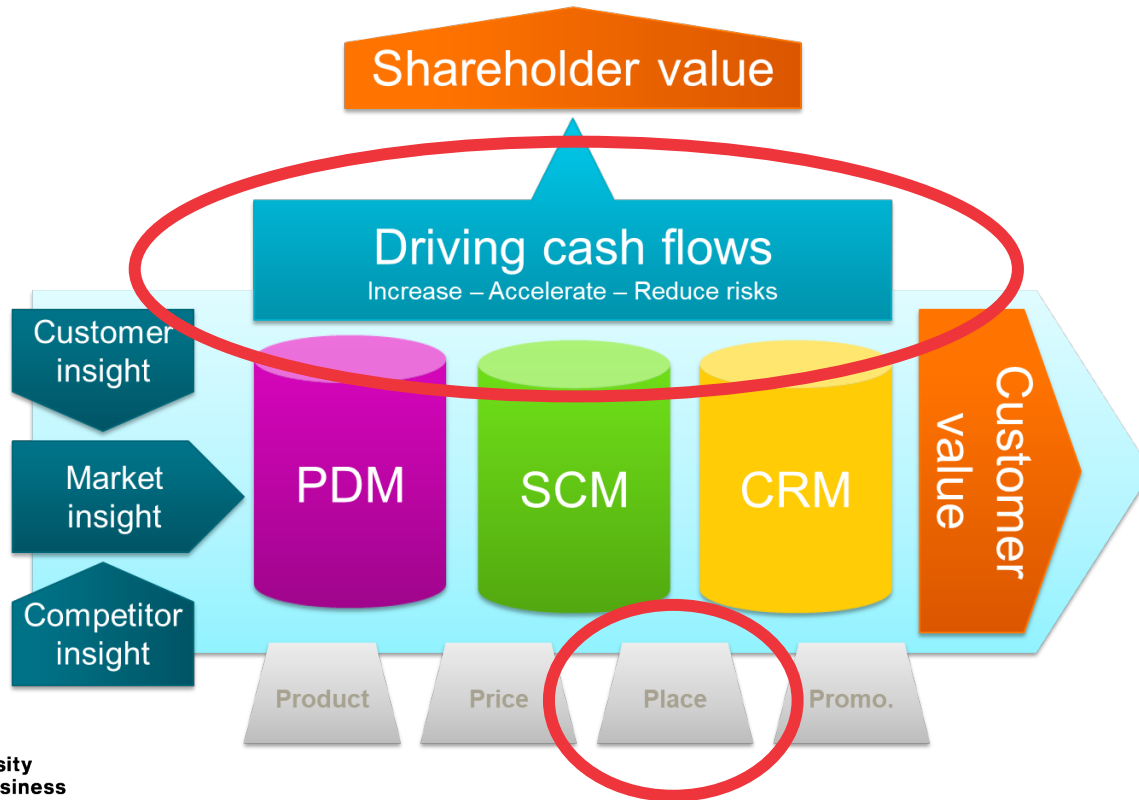
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Strategic marketing architecture

(Mattila)



Managing distribution

(Lambrecht)

Distribution can be a major source of competitive advantage

- Operational excellence is often given
- Competition and competitive advantage lie mainly in communication and delivery
- E.g. Nokia

Managing distribution

(Lambrecht)

Distribution decisions are complex and likely to create conflicts

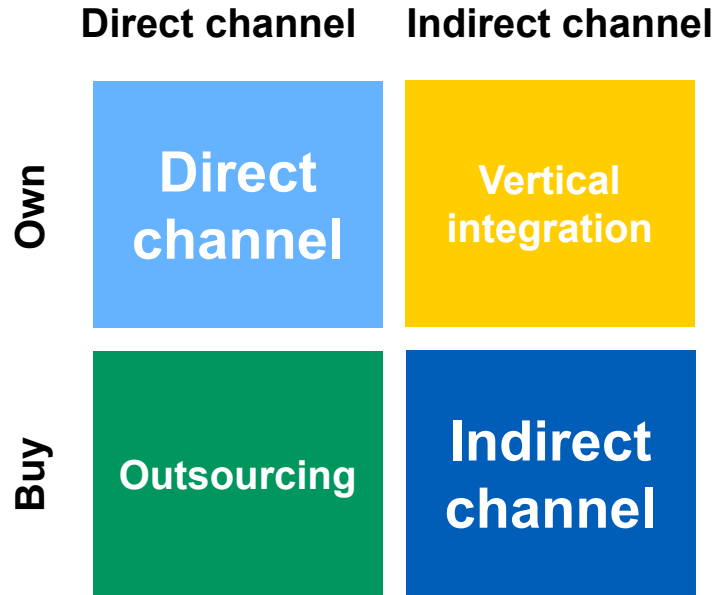
- Require trade-offs, e.g. service vs. cost, direct vs. indirect
- Involve people with conflicting interests

Distribution systems are extremely hard to change

- High inertia
- High switching cost

Channel system choices

(Lambrecht)



Go-to market strategies and distribution

From masses to few

- Intensive distribution –
Majority of resellers stock the 'product' and price competition may be evident
- Selective distribution –
Intermediate choice
- Exclusive distribution –
Only handpicked resellers or authorized dealers are allowed to sell the 'product'

Power and control (Lambrecht)

- Control programs
 - Control programs are specifications (both formal and informal) of behavior patterns for channel members
 - designed to ensure performance of desired service levels
 - Resistance from channel members

Power and control (Lambrecht)

- Power in the channel
 - Ability to influence the actions of others
 - Required to induce compliance with control programs
 - Demanding control programs need to be backed by higher levels of supplier power

Power and control (Lambrecht)

- Assessing power
 - Stage I: Value of brand to the reseller
 - Stage II: Quality of relations and support programs
 - Stage III: Reseller switching costs

Vertical integration (Lambrecht)

- “L’Oreal acquires three professional hair care distributors in the US”
- The market fails to provide a good outsourcing solution
 - Transaction-specific assets
 - Contracting with third parties impractical, costly or risky
 - Qualified distributors unavailable (markets unserved or underserved)

Vertical integration (Lambrecht)

- Vertical integration more profitable
 - Capturing downstream margin
 - Performing channel functions more efficiently
 - Economies of scale?
 - Avoiding “double marginalization”

Vertical integration (Lambrecht)

- Difficulties in monitoring performance in the channel
 - Non-selling activities important or sales process long, but hard to monitor and track effort and hard to implement control
 - Providing management with greater sense of control over critical activities

Vertical integration (Lambrecht)

- Improve market intelligence
 - Better knowledge of customer shopping behavior – “test bed”
 - Track downstream changes

Partial vertical integration

(Lambrecht)

- Partially integrating downstream by owning some company outlets while continuing to use independent retailers
- Benefits of partial vertical integration
 - Increasing branding efforts
 - Controlling access and message to customers
 - Increasing prices
 - Learning about market and customer needs

Partial vertical integration

(Lambrecht)

- Risk of partial vertical integration
 - Igniting channel conflict
 - Perhaps not core competence a - potentially very costly effort
 - Increased commoditization requires differentiation

Channel conflict

(Lambrecht)

Horizontal conflict

- Overlapping sales coverage provided by parallel channels
- Small degree of overlap is inevitable and a sign that the firm is obtaining good market coverage
- High degree of overlap can rapidly lead to deterioration in channel performance

Channel conflict

(Lambrecht)

Vertical conflict

- Associated with a breakdown in the relations between the supplier and a channel intermediary
- Occurs when parties' expectations are not met

Channel conflict

(Lambrecht)

Supplier actions

- Supplier begins direct sales, competing with indirect channels
- New product is assigned to a new channel

Channel changes

- New formats emerge (online, social shopping)
- Resellers merge or consolidate

Channel conflict

(Lambrecht)

Customer buying behavior changes

- Change in information/logistics needs
- Adoption of digital channels
- Economic downturn