Changes in Marketing Channels Formation

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A marketing channel can be defined as a group of organisational units (internal and external from the point of view of a producer) which carries out functions related to the location of production distribution. Any organisational unit, notwithstanding it is an institution or agency performing one or several of these functions, is considered as a part of a marketing channel. The structure of the channel determines what functions and which organisational unit performs. A proper selection of product traffic channels requires the information where buyers are, and the number of buyers; besides it is necessary to learn the market conditions. While making decisions on marketing channels one must identify the existing situation and reason why the company should choose a certain strategy for the distribution of the production to buyers (the number and types of marketing channels, the point of production sale). The selection of the marketing channel scheme and structure takes longer than any other decision related to marketing mix elements (Svensson, 2002). Therefore, it is very important to make the right choice of the type of the channel, intermediaries and evaluate all elements of the environment which affect formation of a marketing channel.

The necessity of the distribution as a specific economic activity arises from the gap, mismatch between the production of products and consumption place, time, quantity and quality (product range) (Pranulis, Pajuodis, Urbanavicius, Virvilaite, 2008).

The speed of delivery, guaranteed supply and a possibility to purchase products, convenience for buyers and other things may improve the relationship between buyers and sellers and enhance consumer satisfaction. That is why companies more and more focus on marketing channel management in order to deliver products and services required by consumers on time, in the proper place and at a fair price (Frazier, 1999). Each marketing channel generates different revenues; thanks to intermediaries products are supplied to target markets in a more efficient way. By using their relationship, experience, specialisation and economy of scale, intermediaries create a value added to the product to be sold. Therefore, competitive and development possibilities of the company as well as consumer satisfaction are very much dependent on the marketing channels formed, and intermediaries chosen by the company.

Benefits can be seen in reviewing marketing channels in the historical context as well. In the eighties and nineties of the last century multistage, detailed channel formation models were suggested. Recently simpler 4 – 6-step, more universal models are prevailing. The geography of marketing channels management is expanding too: empirical tests on the principles of marketing channel formation have been made in Central and Eastern European countries (Lorentz, Wong, Hilmola, 2007), in Asia (Liu, Tao, Li, El-Ansary, 2008). Channel formation is also affected by modern technologies: a possibility to purchase products on internet, various novelties in the area of logistics. A variety of retail trade forms offers the consumer wider opportunities of choosing the product and the producer to select the most appropriate marketing channel from a wider range of channels of various forms, length, and width (Yan, 2010). Moreover, the decision of a consumer is more and more influenced by the environmental aspects of the product or service, social responsibility of producers and intermediaries (Juscius, Snieska, 2008).

Keywords: marketing channels, distribution system, consumer needs, restrictive factors, internet channels, models of marketing channels formation.

Introduction

Relevance. Recently, consumers are increasingly aiming at having choice. A modern consumer knows what he or she wants, looks for benefits, therefore the gap between the consumer and the producer may result in an irremediable damage for companies. In addition, new marketing channel trends are observed in the world, laconic nature of channel formation and replacement of traditional marketing channels with internet marketing channels. A possibility to get products at any time of a day, at any day encourages consumers to save their time and use the most convenient means in purchasing products. For the above reasons decisions on the selection of marketing channels request considerable investments and efforts; also, an effective distribution system always gives additional advantages for the company in the competition.

Distribution as one of the four elements of the marketing mix is an inseparable part of marketing decisions of the company that covers all decisions on
delivering of the production to the final consumer. Topics on distribution are analysed by various foreign (Ballou, 2007; Berman, 1996; Coughlan, Anderson, Stern, El-Ansary, 2001; Frazier, 1999; Kotler, Armstrong, Saunders, Wong, 2003; Kotler, Keller, 2007; Magrill, 1996; Rosenbloom, 1999; etc.) and Lithuanian marketing specialists (Gudonavičienė, Buciuniene, 2003; Gudonavičienė, Alijosiene, Aukščionis, 2008; Pranulis, Pajuodis, Urbahnauskienė, Virvilaitė, 2008), with a considerable focus on the disclosure of marketing channel formation principles.

The problem. In view of intensive commercial activities of various forms and increasing variety of retail trade objects, marketing channels become more and more complex and their management is more and more complicated. This leads to a need to focus more on administration and evaluation of the efficiency of marketing channels, by testing possible alternatives for production distribution to a final consumer. That is why companies more and more often face a problem of formation of an efficient distribution system.

Scientists and practitioners suggest various models for marketing channels formation, which differ by the number of stages, their sequence, application possibilities. Often insufficient attention is devoted to the analysis of the factors that affect the channel or definition of consumer needs.

Research object: formation process of marketing channels.

The purpose of the article. To reveal changes in marketing channel formation, and according to them, identify the priorities in marketing channel formation with the case of UAB Asviga.

Research methods used in the article: a systemic and comparable analysis of scientific literature; case analysis, a qualitative research method (depth interview) and the method of factors significance.

Literature review

Recently, supply chain and marketing channel management is an area of academic study, research, and business practice.

The typology of distribution systems was dissertated by Kim and Frazier (1996), Gundlach, Bolomole, Eltantawy and Frankel (2006) revealed changes in marketing channels over the last two decades in their article. In this article we analyse the models of marketing channel formation proposed by Stern, El-Ansary (1992); Berman (1996); Rosenbloom (1999); Kotler, Keller (2007); Coughlan, Anderson, Stern, El-Ansary (2001), Neves, Zuurbier, Campomar (2001).

Models presented by various authors in 1991 – 2001 are distinguished by details and plenty of stages, specific instructions what should be done in each stage. We will discuss a couple of such models in more detail.

The model for marketing channel formation suggested by Stern & El-Ansary (1992) is specific from others by the specification of individual stages of the model: the authors present not only the channel formation principles but also the main factors or methods which should be evaluated or applied in that stage, indicate actions of the specific stage. Stern & El-Ansary start the selection of a marketing channel by an analysis of consumer needs. Four main services required by a consumer are distinguished: time of delivery, convenience of the place, size of the purchase and range of products. Objectives of the channel are raised in the second stage, after the required service level is analysed. One can identify market coverage, efficiency and other general and specific objectives. It is also important to evaluate objectives of the company. Next, the strategy is created, an appropriate structure is selected, alternatives are analysed, which would satisfy consumer needs identified already in the first stage and, finally, the best evaluated intermediaries are selected.

Berman (1996) presents the following model for marketing channel formation: (1) Determining channel objectives, (2) Evaluating channel width and depth and types of intermediary requirements, (3) Evaluating market, product, company, and intermediary factors that affect channel length, (4) Allocating channel tasks among channel members, (5) Selection of specific channel resellers, (6) Revising channel arrangements.

The first stage in the model of Roosenbloom (1999) involves an identification of the assumptions for marketing channel formation. At the second stage the marketing channel goals should be formulated and coordinated. The distribution propositions should be specified and the alternatives of marketing channel should be scheduled (3rd and 4th stages). At the fifth stage there are analysed the factors influencing marketing channel. At the sixth stage the optimal structure of channel is established using various methods. At the seventh stage the best intermediaries should be selected.

The model for the distribution channels planning process supposed by Neves, Zuurbier, and Campomar (2001) is one more detailed model, which constructed 11 stages that are incorporated into four phases: understanding phase, objective phase, implementation phase, monitoring - revision phase (Figure 1).

![Figure 1. A model for the distribution channels planning process](image-url)

In summing up the structure of the discussed marketing channels, one can state that most of the channels are designed with the focus on internal needs of the company, based on a company focused strategy, not in
all models the analysis of consumer needs is stressed. Insufficient awareness of consumer needs decreases the efficiency of marketing channels, may raise conflicts between channel members (Coughlan et al., 2001; Gudonavičiene, Buciuniene, 2003; Gudonavičiene, Alijosiene, Aukščioniš, 2008). Therefore, it is necessary to ensure management of marketing channels, sharing of information, search for compromises, marketing study (Frazier, 1999; Sezen, Yılmaz, 2007; Klimov, Merkuryev, 2008).

The models suggested by the authors in recent years are laconic and simple. Some authors (Kotler, Armstrong, Saunders, Wong, 2003; Kotler, Keller, 2007; Consoli, Neves, 2008) limit themselves by a verbal model without presenting a graphic formation model of a marketing channel. Others present models of 4 – 5 stages, with the view on the main moments of channel formation (Rosenbloom, 2005; Coughlan et al., 2001). Both most often fail to provide a detailed description of actions in each stage, categorically fail to indicate methods to be used or factors that should be evaluated in a specific stage, and only suggest recommendations of general nature by expanding application possibilities for a model in such a way for various business areas.

Kotler et al. (2003) present the following sequence of marketing channel formation:

1. Analysis of consumer needs.
2. Objectives and restrictions of a marketing channel.
3. Definition of marketing channel alternatives.
4. Evaluation of channel alternatives.
5. Selection, evaluation and control of marketing channel members.

Kotler, Keller (2007) provide almost analogous formation process for marketing channels (analysis of consumer needs, definition of objectives and restrictions of the channel, definition of alternative channels, evaluation of alternatives; selection, motivation and evaluation of intermediaries).

Consoli, Neves (2008) suggest a 5-step sequence:
1. Environmental analysis for marketing channel new opportunities.
2. Benchmark and competitor analysis in new marketing channels.
3. Decisions on the structure of marketing channel,
5. Implementing and monitoring the performance on the new channel.

The trend of the modern marketing channel formation is focusing on consumer needs and evaluation of other factors affecting the channel (Yan, 2010; Chen, Lai, 2010; Rossi, Silva, Neves, 2006; Thron, Nagy, Wassan, 2007). The empirical tests prove that the principles for marketing channel formation are applied not only in the USA and Western European countries, but in recent years these processes take place in Central and Eastern European countries (Lorentz, Wong, Hilmola, 2007). Besides, it is worth paying attention that some companies more and more frequently pass all production distribution activities to professionals of this area (distributors, wholesalers), and almost withdraw from production distribution. As a result, companies – producers can focus more on their own business – production, and optimise operating costs. The form and efficiency of the channel is impacted by the distributor’s trust in suppliers. This was empirically proved by Liu, Tao, Li & El-Ansary (2008). Other distribution tendencies in recent years include using a wider variety of marketing channels (Coelho, Easingwood, Coelho, 2003; Yan, 2010), popularity of direct marketing is increasing in certain business areas; usage of internet channels is expanding particularly rapidly (Webb, 2002; Duffy, 2004; Canavan, Henchion, O’Reilly, 2007). While analysing changes in marketing channels, logistics and purchasing, Gundlach, Bolumole, Eltantawy & Frankel (2006) observed that channels are more consumer-focused, are based on value adding chains and larger networks of members.

Following the aforementioned comments and models for marketing channel formation by Kotler, Armstrong, Saunders & Wong (2003), Kotler, Keller (2007), Consoli, Neves (2008), Rosenbloom (2005), Coughlan et al. (2001) we suggest a conceptual model for marketing channel formation process that covers the most relevant stages in channel formation.

**Figure 2. A conceptual model for the marketing channels formation process (made by the authors)**

The marketing channel will serve its purpose only in case the flow of products travelling by it will reach consumers on time, in the proper place and for a competitive price. To reach this goal one should know consumer needs and their changes. Consumer needs can be analysed by various marketing research methods (Grundey, 2008). All members of the marketing channel must know their consumers, their habits. In addition to regular primary marketing study, the secondary information is useful for the analysis of consumer needs as well: data on orders and sale must be collected (by regions, product groups, etc.), this information must be shared with partners. It is more difficult to forecast consumer behaviour in the consumer product market; in particular, it is difficult to anticipate impulsive purchases (Virvilaitė, Saladiene, Bagdonaite, 2009).

There might be a lot of factors influencing the marketing channel: that is why they are divided into several groups of factors: market, product, company, intermediaries and competitors (Berman, 1996). Other authors (Coughlan et al., 2001; Banyte, 2008; Gimzauskiene, Klovienė, 2010) emphasise environment
factors that include most of the aforementioned factor groups. In the group of market factors, in addition to geographic location, market size and density, the consumer behaviour is also relevant. The group of company factors reflects internal opportunities, the situation of financial, human and other resources. Specific factors affecting the marketing channel depend on the type of the company and its production. Classification criteria of companies were described in detail by Boguslauskas & Adlyte (2010). In addition to the aforementioned factors, recently, issues of social responsibility and ethic become very much important to companies (Juscius, Snieska, 2008; Ciegis, Gavausauskas, Petkeviciute, Streimikiene, 2008).

The main goal of the marketing channel is to make the product available for consumers (Kotler, Keller, 2007). Therefore, the distribution objectives are formulated in view of consumer needs, capacities of the company and main restrictive factors. Obviously, general goals of the company should be taken into account, so that the objectives of a lower level do not contradict to the main goals of the company. Targets for marketing channels are formulated taking into account the set goals, by defining specific tools, terms and responsibility.

Based on the objectives of the marketing channel, consumer needs, the main restrictive factors and opportunities, several alternatives in marketing channels are designed and compared. There are plenty of methods offered to compare the alternatives. Some of them are specific, applicable only in a very narrow activity or in marketing channels of a certain form. Others are used widely and are applicable not only for evaluating alternatives of marketing channels (e.g. methods of factor significance, consistent elimination, etc.). While evaluating channel alternatives, the company may choose an approach that is most acceptable to it or, in order to seek for a higher accuracy, to evaluate by several different methods.

In the last stage the best marketing channel or channels are selected and included into the distribution system of the company.

**Findings**

This part of the article will elaborate the identification of marketing channel problems in UAB **Asviga** and provide suggestions how to solve them by designing and evaluating new marketing channels.

**UAB Asviga** is engaged in the production and selling of confectionery. The company employs 72 employees. The operation started in 1998. Presently, the company produces about 80 types of biscuits and 10 types of waffles. Monthly production and sales make up about 90 tons; on average, monthly, UAB **Asviga** produces about 50-60 tons of biscuits, waffles and about 25 tons of products from corn flour.

Biscuit and waffle market shares of the main producers are shown in Figure 3. **UAB Asviga** holds about 18 percent of biscuit and waffle market in Lithuania (Figure 3). The main buyers of the company’s production – intermediaries are **UAB Sanitex, Maxima LT, UAB Daïsena**. **Asviga** follows the strategy of intensive distribution.

**Figure 3. Market shares of the main competitors that produce biscuits and waffles**

The company exports part of its production to Estonia, Germany, the USA. Products of **UAB Asviga** are not expensive, they are delicious, have a good appearance and quality. The raw material used for production is qualitative and preservative free.

**UAB Asviga** has the following problems and opportunities of marketing channels:

- it holds too small market share;
- gap between the producer and consumer (no opinion of consumers is surveyed);
- significant influence of intermediaries;
- increasing number of internet users (including the number of those who buy products via internet) provides an opportunity to expand ways of production sales.

To solve the distribution problems of **UAB Asviga**, it is suggested to evaluate the existing and designing new marketing channels which would increase sales volumes in the company, mitigate the impact of intermediaries, as well as strive for new market opportunities.

Designing of new marketing channels is based on the conceptual model for the marketing channels formation process (Figure 2) suggested by the authors of this article. This simple-to-use model is short but it contains all main stages indicated in other models.

Further on, this article will elaborate on the consistent implementation of the steps indicated in the suggested model (Figure 2) and evaluation of marketing channels used by **UAB Asviga** and alternative marketing channels, as well as suggestions for improvement of the distribution system of the company.

**Analysis of consumer needs and definition of marketing channel restrictive factors**

Based on the suggested model, firstly consumer needs are analysed, and restrictions and opportunities of marketing channels are defined. As it was mentioned earlier, the evaluation of such factors may be done by both primary (depth interview, survey, observation, etc.), and secondary marketing study (analysis of statistical data and internal information of the company). The analysis of consumer needs was based on statistical data, and information provided by the sales unit of the company and marketing channel partners. Consumer needs were analysed during the primary test as well. A qualitative
research - depth interview is performed to define the main restrictive factors and opportunities.

**Research design and process. The aim of this study**
is to identify which factors make the greatest impact on marketing channels of UAB Asviga and find out what there are new trends and opportunities in the channels.

**The study was performed:** November 25, 2010.

**Type of the research and data collection method.** A qualitative test was chosen: depth interview. In the opinion of McDaniel & Gates (2010) such an interview is suitable for interviewing of the employees directly related to the problem, experts. This interview included four employees of the sales unit and the head of the sales unit of UAB Asviga – five respondents in total.

The questionnaire of the depth interview is composed of eight questions. First three questions were asked to find out the efficiency of the existing marketing channels, consumer needs, as well as to identify distribution problems. The fourth question was intended to define factors that make the most significant impact on both an individual marketing channel and the entire distribution system. The answers received to this question were used to evaluate marketing channels by factor significance approach. The firth and the sixth questions were intended to find out possible critical limits of the profit and investments to create a marketing channel. The last two questions were intended to clarify if specialists know the newest distribution trends, as well as if the company updates marketing channels, if it aims at innovations.

The interview template was filled in by the researcher.

**Results of the research.** The results of the study performed suggest the following findings:

- Most of the respondents stated that the existing system of marketing channels is rather efficient, the company reaches a considerable number of final consumers; however, expansion of the number of retail intermediaries (launching of the cooperation with other retail chains) or organisation of distribution through own-brand shops owned jointly with other producers, could allow reaching even more consumers, which would lead to increasing sales volumes of the company, consumers would easier reach the production of the company.

- There are no major complaints on intermediaries, however, one must admit that it is difficult to adjust to the consumers because of the lack of information, therefore, it is expedient to have closer cooperation with intermediaries to clarify consumer needs.

- During the private interview a number of factors affecting the distribution system were mentioned, but having summarised the results of the study it appeared that the most important are (1) the size of the profit that is planed to gain by distributing products through a specific marketing channel, (2) efficiency of the channel in reaching final consumers, (3) the amount of required investments into the marketing channel (the company is not able to invest considerable amounts into channels), (4) a possibility to control products in the marketing channel which would allow to obtain a more comprehensive information about consumer needs to respond to them faster, and (5) a possibility to withdraw from the marketing channel, i.e. how fast and without financial losses it would be possible to withdraw from the channel that did not meet the expectations; in addition, respondents indicated specific amounts of the profit and investments into the marketing channel, channel liquidity terms that are acceptable to them, specified percentage of the desired number of final consumers to be reached.

- It is admitted that new trends (internet trade) are observed and in the near future may change the distribution systems of the companies. Already now there are realistic possibilities to apply internet sales in traditional retail and wholesale companies.

- During the depth interview, guidelines for marketing channel development were indicated, which serve as a basis for marketing channels alternatives that were designed later.

**Setting of objectives and tasks for a marketing channel**

Based on the results of the qualitative study, the following new **objectives for marketing channels of UAB Asviga** can be set:

- Appropriate distribution: efficient (all or majority of consumer segments are reached; moreover, consumers should be reached as quickly as possible) and competitive (production should reach most of the food stores which also offer products of competitors, as well as look for new opportunities to distribute products in locations inaccessible by competitors, which would ensure much wider distribution than the competitors).

- Maximising of the profit (by reaching more consumers and distributing production efficiently, the aim is to gain as high profit as possible).

- Efficiency of physical distribution of products: finished products must be stored in the warehouse as short as possible, vehicles must be in a good technical condition so that no any problems arise during the delivery, if the intermediary collects products, the products must be packed and ready for transportation prior to the arrival of the intermediary.

- Efficiency in consumer service: faster presentation of the information, regular information about news in the product range, enhancement of the intensity of production distribution of UAB Asviga (i.e. increase of the points of sales).

**Tasks of the marketing channels** are defined in view of the new objectives of the channels:

- to develop marketing channel alternatives into the channels used by the company, taking into account the particularity of the production and consumer needs;

- to deliver products in a fast and qualitative manner;
• to accumulate sales information;
• to inform the market about suitability, characteristics of the products;
• to be liable for inappropriate products;
• to monitor activities of competitors continuously;
• to ensure a possibility for buyers to pay for the products in the way convenient for them.
In view of the restrictive factors, consumer needs and predefined distribution goals and targets, alternative marketing channels are designed in the next stage.

Definition and evaluation of alternatives of marketing channels

While forming alternative marketing channels, it is necessary to take into account restrictive and opportunity factors, i.e. macro and micro environment (including market, consumer and competitors). Moreover, the structure of marketing channels depends on the capacities of the company, its marketing activities. A significant impact on marketing channels in this case is made by product factors (size, weight of the product, expiry date, packaging, etc.).

In order to evaluate what internal and external factors influence the distribution activities of UAB Asviga, which of these factors are the most important, the results of the qualitative study are taken as a basis.

Below one can see two alternatives that would help to strive for the set distribution objectives.

Alternatives for marketing channels of UAB Asviga. As the existing distribution system of UAB Asviga does not reach the maximum number of final consumers; also given this distribution structure no prospects in growth of the market share can be seen, two marketing channel alternatives are suggested, which could strengthen the distribution system of the company.

Alternative 1: a new marketing channel through major retail chains (Maxima, Iki, Rimi, Norfa, Aibe). Presently, UAB Asviga cooperates only with Maxima retail network; however, in order to reach a higher number of final consumers, it would be worth distributing its production also through shops of Iki, Rimi, Norfa and Aibe retail networks. Although Maxima currently has a shop network consisting of as much as 214 shops in Lithuania, but if we add 216 shops of Iki network, 115 shops of Norfa network and 36 shops of Rimi network the efficiency of reaching final consumers would definitely grow. Moreover, Asviga should consider an option to distribute its products in other countries through central warehouses and logistics of Maxima and Iki. Maxima owns a central warehouse in Vilnius, products from which are promptly distributed to its shops in Latvia (131 shops), in Estonia (54 shops) and Bulgaria (35 shops). Iki distributes the goods from its central warehouse to its shops in Latvia (55 shops). Naturally, such market expansion would become possible only subject to evaluation of competitiveness of Asviga products in those countries.

Alternative 2: cooperating with other food producers which have a network of their own-brand shops and sell there not only own production, but also food products of other producers. If such small shops are located in attractive places (along greater traffic of people), they have plenty of buyers, as consumers follow the view that such shops sell fresh products with a low mark-up or even at producers’ prices.

Both marketing channel alternatives are presented in Figure 4.

Figure 4. Alternatives of marketing channels of UAB Asviga

In order to evaluate new marketing channel alternatives, an approach of factor significance is used.

Based on the results of the qualitative study, the main factors that make the most considerable impact on marketing channels of UAB Asviga are identified. During the study the respondents indicated a number factors which are material for the distribution system of the company, but almost unanimously the following factors were identified as the most important:

1) Desired profit – it is important that the company earns as much profit as possible and does not incur high expenses.
2) Efficiency of the channel in reaching the consumer – how fast and what number of final consumers the product will reach (not all residents of Lithuania are evaluated, but certain segments pointed out by the company).
3) Amount of investment – how much money must be invested into the new channel.
4) A possibility to control the distribution of products – to what extent the producer can control and influence the sale of its products already sold to the intermediary.
5) A possibility to withdraw (liquidity) – how fast companies can liquidate the distribution channel, withdraw from it once it becomes an unprofitable investment.

Further on the evaluation of marketing channel alternatives of UAB Asviga is performed following the factor significance approach.

Evaluation of marketing channel alternatives of UAB Asviga by a factor significance approach. The essence of this approach is: definition of factor significance and evaluation of marketing channels based on the main factors. To achieve this goal we will use the experience of the company, tests performed and, most importantly, the predefined objectives of the marketing channels of the company. It is important here to evaluate the factors precisely, as failure to do so may lead to inaccurate results.

First of all the existing marketing channels of UAB Asviga will be evaluated.
The first column of Table 1 provides factors that make the highest impact on the marketing channels of UAB Asviga, numbered from 1 to 5:

1. Possibility to control the distribution.
2. Desired profit.
3. Investment amount.
4. Withdrawal possibility (liquidity).
5. Efficiency of the channel in reaching the consumer.

Table 1: Evaluation of the existing marketing channels of the company

<table>
<thead>
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<th>Factors</th>
<th>Factor significance</th>
<th>Factor evaluation</th>
<th>Final evaluations of factors (2x3)</th>
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In total: 1.0

1 2 3 4

* - Marketing channel through "Maxima LT" retail net;
+ - Marketing channels through wholesalers

As it can be seen from Table 1, the marketing channel through shops of Maxima network was scored at 7.9 – this is really a high score. The possibility of withdrawal from the channel (liquidity) got a low score, as fast withdrawal in an unfavourable situation is restricted by long-term agreements. The need for investments into this channel is rather low, as a lot of functions are carried out by the intermediary. The best scored factors of this marketing channel are the profits and efficiency in reaching the consumer, as it allows reaching a high number of consumers. A possibility to control products in such a channel is also viewed as rather good, as this marketing channel is short – of the first level. The marketing channel through the wholesalers (UAB Daisena and UAB Sanitex) used by the company is also scored positively. The company is satisfied with the profit received from this channel, rather high efficiency in reaching final consumers and the fact that no large investments are needed for the operation of this channel. An average score of the liquidity resulted from the fact that possibilities of the company to withdraw from this marketing channel quickly and without considerable losses are restricted by long-term agreements. In this channel a possibility to control the distribution of products declines considerably, if compared with the previously evaluated marketing channel, as this channel is longer – of the second level.

Although the marketing channels of UAB Asviga are evaluated rather well, the company, in order to reach even wider number of consumers, should develop its distribution activities, as the existing channels do not ensure maximum efficiency in reaching the consumer, do not give a possibility to increase sales volumes significantly, to take advantage of all market opportunities. Therefore, the two marketing channel alternatives suggested in this article will be evaluated by the approach of the factor significance, following the same principle as applied for the evaluation of the existing marketing channels of UAB Asviga.

Table 2: Evaluation of marketing channel alternatives through retail networks and own-brand shops

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<th>Factors</th>
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In total: 1.0

* - Marketing channel alternative through retail nets;
+ - Marketing channel alternative through own-brand stores

Table 2 presents two alternatives: Alternative 1 means a suggestion to UAB Asviga to distribute its production through retail networks (not only Maxima, as presently, but also Iki, Rimi, Norfa and Aibe retail networks). This alternative has got really a high score (8.65), as it gives the highest efficiency of the channel in reaching the consumer, as well as it produces profits, as sales volumes in this marketing channel are maximal. The lowest score was given to the possibility to withdraw from the channel (liquidity), as a fast and loss free withdrawal would be limited by agreements. A positive aspect is that such a marketing channel would not require particularly high investments. Alternative 2 suggests that the company itself supplies its production to the networks of own-brand shops formed together with other producers. The overall score of the alternative is 7.05, as the profit decreases as a result of acquisition of new vehicles, acquisition or rent of new premises, taxes; therefore such a channel requires a lot of investments; its liquidity ratios are also not high as once having acquired premises and vehicles, it is hard to sell them quickly and without losses; however, the company gains experience, the speed of the feedback between the company and consumers increases. A lower
number of consumers are reached than if using an alternative of intermediaries.

Selection of the best marketing channels

The results of the empiric study in the article do not aim at radical changing of the distribution system of the company, but rather reveal new opportunities to solve arising problems and take into account modern trends in marketing channels.

The currently used distribution system could be expanded with the aim to gain more profit and adapt to new markets and consumer needs.

As it was mentioned, two alternatives have been offered: the first one – cooperation with retail networks, the second one – partnership with own-branch shops with other producers. Having evaluated the existing marketing channels and suggested alternatives by the factor significance approach we see that the first alternative got the highest score (8.6), however the existing marketing channel of the company is not very much behind it. In order to evaluate the marketing channel alternatives as precise as possible, it is advisable to use more than one evaluation approach, e.g. consistent elimination approach, Aspinwall’s characteristic of products and parallel systems approach or other alternative evaluation approaches. Analogous results derived by several approaches would only confirm that evaluation of alternatives avoided mistakes and major inaccuracies.

Among the goals of the company there is the penetration into new markets and providing services to consumers which they would require; specialists of the company also agree that new tendencies can really make an impact on the distribution system. Based on this knowledge and long-term goals of the company, it is suggested using not only the best scored alternatives, but actively engaging into the initiative of retail chains – internet trade, too.

An internet marketing channel represents not only the state-of-the-art trend and a distribution method with growing consumer number, but also an opportunity to get to know own consumers, observe their environment, wishes and behaviour. The advantage of internet channel is that products may be ordered round the clock and delivered rather fast. Also, one might positively evaluate the experience which is very important to the company, direct feedback from consumers: it is easy to find out what consumers wish, what they expect which products they are not satisfied with, it is easy to offer new products, carry out campaigns, it is not difficult to update information.

To improve marketing channels of UAB Asviga, based on the analysis of the situation in the company, theoretical solutions, state-of-the-art trends and completed evaluation of marketing channel alternatives, the company is recommended to apply the following distribution system:

1) through retail networks,
2) through wholesaler intermediaries.

Using of such a distribution system – cooperation with the major retail shopping networks with the continued relations with the existing wholesalers (Sanitex and Daisena) - would allow reaching a maximum number of final consumers, strengthening its competitive position, and making conditions to take a larger market share.

Conclusions

1. Product distribution is one of the most stable elements of marketing mix that has the character of a lasting perspective. However, certain changes are unavoidable in this area, too. Decisions about the selection of a marketing channel require large investments and efforts, but the effective distribution decisions always bring some additional advantages for a company in the competition.

2. In this article we analysed marketing channels formation changes over the last 20 years.

3. In summing up the structure of the discussed marketing channels, it can be stated that most of the previous channel formation models were focused on internal needs of the company, based on a company focused strategy, and not all models emphasise the analysis of consumer needs.

4. The trend of the modern marketing channel formation is the focus on consumer needs and evaluation of other factors affecting the channel. Other distribution trends of the recent years include using of a wider range of marketing channels, and in certain business areas the direct marketing becomes more and more popular, i.e. using of internet channels is spreading particularly rapidly.

5. The article suggests a 4-stage model for marketing channel formation that covers the analysis of consumer needs, definition of factors that restrict marketing channel formation, setting of goals and targets, designing and evaluation of marketing channel alternatives, and selection of the best marketing channels. This model has been empirically tested in a food production company by evaluating the existing distribution system and offering ways to improve it.

References


Šis marketingo kanalų formavimo modelis taikomas sprendžiant UAB „Asviga“ paskirstymo problemas, suformuojant ir įvertinant naujas marketingo kanalus. Vartotojų poreikiams ir lemiantiems veiksniams nustatyti naudojamos antriniai šaltiniai (statistiniai duomenimis, įmonės pardavimų padalnio ir marketingo kanalų partnerių suteikta informacija), taip pat atliekamas kokybinis tyrimas (giluminis interviu) – apklausiami įmonės pardavimų padalnio darbuotojai. Išskyryus reikšmingiausius marketingo kanalų formavimui veiksnius, suformuojamos kanalų alternatyvos, jos įvertinamos, atrenkami tinkamiausi marketingo kanalai.

Apibendrinant aptartų marketingo kanalų struktūrą, galima teigti, jog ankščiau dauguma kanalų formavimo modelių buvo nukreipti į įmonės vidinius poreikius, dažnai stigdavo užitkinės orientacijos į vartotojų poreikius. Šiuolaikinių marketingo kanalų formavimo tendencija – orientacija į vartotojo poreikius ir kitų kanalo struktūrą sąlygojančių veiksnių įvertinimas. Kiti pastarųjų metų paskirstymo pokyčiai – naudojama vis daugiau įvairių marketingo kanalų, tam tikrose verslo srityse didėja tiesioginio paskirstymo populiarumas, ir šių sparciai plečiasi elektroninių marketingo kanalų panaudojimas.

Raktažodžiai: marketingo kanalai, paskirstymo sistema, vartotojų poreikiai, įtaką darantys veiksniai, elektroniniai kanalai, marketingo kanalų formavimo modeliai.

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