

Subject: Tourism & Hospitality

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Paper 14: Tourism and Hospitality Marketing

Module 22: Channel member selection and evaluation of Channel alternatives



THE DEVELOPMENT TEAM

Principal Investigator

Prof. S. P. Bansal

Vice Chancellor, Indira Gandhi University, Rewari

Co-Principal Investigator

Dr. Prashant K. Gautam

Director, UIHTM, Panjab University, Chandigarh

Paper Coordinator

Dr. Rajesh Verma

Mittal School of Business, Lovely Professional University, Punjab

Paper Co-Coordinator

Dr. Rahul Sharma

Assistant Professor Mittal School of Business, L.P.U (PB)

Content Writer

Mr Ajay Chandel

Assistant Professor, Mittal School of Business L.P.U (PB)

Content Reviewer

Prof. Balram Dogra

Campus Director, Rayat Bahra University, Kurali, Punjab

TERMS	DESCRIPTION OF MODULE
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Keywords	Marketing mix, Distribution channels, Channel selection, evaluation of channel alternatives

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QUADRANT-I

Channel member selection and evaluation of channel alternatives

1. Learning Outcome

After completing this module students will be able to:

- Understand the concept of channel member selection
- Understand the concept of evaluation of channel alternatives
- Understand the various inducements to keep channel members motivated

2. Introduction

Place or distribution is one of the very important parts of the marketing mix. A distribution channel is a chain of mediators which are used to pass a product or service to its end user. It might involve the use of wholesalers, retailers, distributors and even the relatively newer distribution channels like Internet. Distribution channels can further be divided into direct and indirect channels of distribution. Direct channels enable the consumer to buy the products or services directly from the producer and the indirect channels allow the consumer to buy the products or services from a wholesaler or retailer.

A firm must strategically distribute its product or service at a place that is easily available to its existing and potential consumers. Strategically determining upon the place or distribution is a multifaceted process as it involves having a very thorough understanding of the target market. Understanding the needs and preferences of the target market inside out is extremely helpful in identifying the most efficient distribution channels that directly appeals to a firm's target market.

Given to the nature of tourism and hospitality product's complex nature, the network of tourism distribution channels is an extremely complicated system. Advent of technological developments, advent of online social networks and online reviewing websites have added supplementary distribution channels to the existing traditional tourism distribution channel network making it even more complex system.

Since selection of channel members in any business has a great significance, it becomes an area of great concern for many businesses. Carefully selected channel members help organization's products and services penetrate the market by promoting their sales into the market like a responsible partner while any challenge faced post selection can prove fatal for business success. This chapter will focus on channel member selection and evaluation of channel alternatives.

3. Channel member selection

The process of selection of channel members consists of three basic steps:

- i) Searching prospective channel members
- ii) Selection criteria to determine suitable channel members
- iii) Locking suitable prospective channel members

i) Searching prospective channel members

There can be a number of sources a tourism firm might find useful in searching appropriate channel members. Most preferred sources for searching prospective channel members have been listed below in their order of importance.

- a) **Field sales organizations:** Tourism firm's sales staff can act as the best source to search/identify the potential channel members. The sales staff is usually better equipped with picking up information about prospective channel members. Sales staff might even have rich database of prospective intermediaries as a result of their continuous efforts in building business networks. Though, this role of existing sales staff in firms is usually not taken seriously and there are chances that the firms might not even sufficiently reward sales staff for their efforts in finding/searching potential channel members.
- b) **Trade sources:** Another very important piece of information about prospective intermediaries might be extracted from sources like trade associations, directories, publications and trade shows, etc. These sources can be extremely valuable. These sources hence can be used to communicate and confirm channel members.
- c) **Reseller inquiries:** Many companies create a database of suitable potential channel members through direct interactions and inquiries from intermediaries managing their products or services. Strongly branded and successful firms usually receive maximum number of such potential channel member enquiries which in turn lead to the creation of a rich database for selection of intermediaries.
- d) **Customers:** Existing customer base of prospective intermediaries can also be exploited as a source of information. Using surveys techniques like formal and informal interviews to mine the opinions of consumers might be able to create useful understandings about the strengths and weaknesses of a prospective channel member from the customer's point of opinion.
- e) **Advertising:** Advertisements in trade related publications serve as yet another approach to search channel members. Advertising in trade magazines may also lead to the creation of a large number of inquiries from members willing to be the part of business. Such advertisements, therefore can provide a rich database for intermediary identification and selection.
- f) **Trade shows:** Numerous trade associations conduct conventions at the wholesale and retail levels regularly, at which numerous representatives from the various organizations are participate. Participating companies can get a large pool of prospective enquiries from members participating

in such conventions. Such trade shows or conventions thus can act as a very important source for searching potential channel members.

- g) **Other sources:** Some firms could also use additional sources as a mean to identifying prospective channel members. Such sources usually include organizations such as Chamber of commerce, commercial banks, telephone directories or yellow pages, direct-mailers, previous applications, consultants, brokers that sell the lists containing names of various businesses, business databases and even the Internet.

ii) Selection criteria to determine whether these members are suitable

After creating a list of prospective channel members from the initial identification/search process, firms now should evaluate these prospects against the yardstick of criteria used for selection. Not having a selection criteria can be extremely deteriorating in the later stages of the business. Hence, if a firm doesn't have any criteria for channel member selection, it must design one. Given to the nature of business environment which is highly volatile and turbulent, no selection criterion is well suited under all conditions. Here is discussed various selection criteria given by different authors:

20 key questions that a firm must ask from their prospective channel members while their selection was developed by Brendal. Later, Hlavacek and McCuiston, proposed that for technically complex or advanced products, firms must select those distributors who have a small range of products/services in their total product portfolio. By having a smaller product portfolio, more attention can be laid upon a particular firm's product which demands more focus. It was also opined that Market coverage can serve as an important yardstick for selection process and hence must be considered as an important selection criteria.

A criterion consisting of 12 major components categorized into three basic categories like sales and market related factors, product and service related factors, and risk and uncertainty related factors was proposed by Shiprey as a mean to select channel members.

Six important components of selection criteria; commitment level, financial strength, marketing skills, product-related factors, planning abilities and facilitating factors were identified and proposed by Yeoh and Calantone in an independent study. Together these factors were referred to as "core competencies" that prospective distribution members must have for playing an effective role in complex business markets.

The most inclusive and definitive channel members' selection criterion was proposed by Pegram over three decades ago. Some of the most widely used selection criterion components have been discussed below briefly:

- a) **Credit and Financial Condition:** Since channel members at times have to extend a lending hand to the manufacturers in term of financial matters, the examination of the credit and financial position of channel members is extremely important.
- b) **Sale Strength:** The selected intermediary has to push the product in the market in the wake of the cut-throat competition, the sales staff of the intermediary must have skill sets to outperform competitors to meet sales requirements. Hence, not only the quality of the salespeople but also the size of the sales team employed should be an important factor in evaluating sales competencies of the firm.
- c) **Product Lines:** Product lines currently the part of intermediary's product mix can have an important role to play in selecting a particular intermediary. Firms usually take four aspects of the intermediary's product line into consideration which are:

Table 1: Aspects of the intermediary's product line

Sr. No	Aspects of the intermediary's product line
1	Are the product lines directly competing
2	Are the product lines compatible
3	Are the product lines complementary
4	Quality of the product lines carried

There are some important guidelines that must be taken care of while selecting an intermediary:

Table 2: Important guidelines while selecting an intermediary

Sr. No	Guideline
1	Most of the times, wholesale and retail intermediaries carry competitive products in their product portfolio that compete directly with each other. Manufacturers therefore try to avoid such channel members/intermediaries who carry such competitive product lines for this might lead to internal competition or even cannibalization.
2	Firms usually prefer intermediaries that carry compatible product lines in their product portfolio
3	Firms usually prefer intermediaries that carry complementary products because such intermediaries usually provide a better overall product mix to their consumers.
4	Firms usually prefer intermediaries that carry product lines that are equal to or better than their own lines because no one wants to be linked with poorly performing lines.

- d) **Reputation:** Most firms usually tend to avoid prospective intermediaries that do not carry a healthy reputation in the market.
- e) **Market Coverage** The unique ability of the intermediary to have a wide geographical reach that comprises of the manufacturer's target market and hence manufacturer would like to reach is known as market coverage. Companies will try to get the best territory coverage with a minimum of overlapping.
- f) **Sales Performance:** The ability of the prospective intermediaries in helping the firm to capture a profitable and sizable market share as expected by the firm is an extremely important deciding factor in channel member selection.
- g) **Management Succession:** The continuity of management can be a critical factor in case the intermediaries are owned or at least succeeded by the firm's owner/founder.
- h) **Management Ability:** If the prospective channel member's management have a bad reputation, many manufacturers might not even find such intermediaries worth considering. One of the important factors of management's ability is to manage, train, and retain sales staff to accomplish the stated organizational objectives.
- i) **Attitude:** Prospective intermediary's attitude usually measured in terms of its aggressive approach, enthusiasm, and ability to take initiatives reflect its attitude towards success. Such abilities are usually considered to be directly related to sustainable success in managing the firm's product or service.
- j) **Size:** Businesses do not take it by surprise to see a prospective intermediary being evaluated on its size. More significant the organizational size, coverage and sales volume of a prospective intermediary is, the higher the sale of the firm's products/services is assumed to be. It is a widely accepted assumption that large channel members are more powerful, successful, profitable, better recognized, and have the capabilities to handle product lines better even in tough times when the competition is very harmful.

iii) Securing the Channel Members

It is extremely imperative to understand that selecting a channel member is a two-way street because this business decision does not only involve firms selecting channel members but also members selecting firms seeking mutual benefits. The channel managers in manufacturing firms can choose a variety of incentives to attract and thereby securing continuous support from channel members. The belief is that any kind of business partnership can only be successful when it is mutually beneficial to both parties and motivate them to work as a unified system attaining mutually satisfying partnership goals.

Specific Inducements for Securing Channel Members

Usually, it is better for the firms to communicate the kind of support and assistance that they will provide to channel members in accomplishing the business goals. Most of such incentives usually fall within one of the under mentioned four areas:

- i. Profitable product line
- ii. Support in Advertising and promotional activities

- iii. Management assistance
- iv. Reasonably fair policies and friendly relationships.

Profitable product line

Irrespective of whatever benefits have been offered to the intermediaries, a profitable product line having impressive sales and profit potential when offered to the prospective intermediary lies at the heart of manufacturer/producer-intermediary relationship.

It is even more significant for firms that have products that consumers are not well of to have a good work done in communicating the benefits of managing their products from the perspective of channel members. The whole idea is to emphasize upon the effectiveness of this strategic partnership in generating sales and profits for not only the firm but also for channel members.

Advertising and Promotion

Prospective intermediaries seek for promotional support to be provided by the firms. Under mentioned factors serve as great motivation/incentive to prospective intermediaries to join the channel:

Table 3: Advertising support factors

Sr. No	Support factors
1	Advertising support
2	Strategically partnered advertising campaigns
3	Point-of-purchase material to enhance the sale
4	Showroom displays to increase product visibility

Management Assistance

Intermediaries might assign a great deal of weight age to the firm's commitment in enabling them by providing advertising and promotional support thereby helping them take care of their business better. Such management assistance initiatives can take many forms and might well cover areas such as:

Table 4: Management support factors

Sr. No	Management assistance
1	Training programs for channel members
2	Support in Financial planning and analysis
3	Market trend analysis
4	Inventory control process
5	Promotions
6	Supplementary business functions

Fair Dealing and Friendly Relationship

A marketing channel relationship should not be considered as a purely business relationship but a relationship based upon humanitarian grounds as well. The manufacturer should be able to communicate to the prospective channel members that the business entity is genuinely interested in establishing a healthy relationship with them built on the basis of ethics, trust and concern for their mutual welfare. This focus on fair dealing and friendly relationships, should not, however, be expected to counterbalance failings in the economic or business bases of the channel relationship. Interpersonal relationships, cordiality, and even genuine liking of channel members for each other are no substitute for quality in the form of competitive products, pricing, and support programs to make manufacturer-channel relationships last longer.

4. Evaluation of channel alternatives

Marketing mix is composed of components that are interdependent. Therefore, the failure in any one component may lead to the failure of the entire marketing mix. It is, therefore, paramount to understand that

assessment of the channel alternatives as a 'Place' decision is equally important as the assessment of any other marketing functions.

For an example, lets imagine that XYZ tourism company recognized several channel alternatives but wants to opt for the option that best helps it to achieve XYZ's long-run marketing objectives. XYZ thus, must try to evaluate each alternative against three criteria consisting of factors like economic, control, and adaptive criteria. Let's concentrate on the undermentioned elucidation:

XYZ is a tourism company that is willing to sell its packages directly to customers. The company is struggling to decide between two undermentioned alternatives:

Table 5: Illustration for channel alternative evaluation

Alternative-1	Alternative-2
XYZ thinks of recruiting ten sales people who will work from its sales office. They will be rewarded a base salary plus a commission decided on the basis of their sales.	Or XYZ can use the services of an online travel agency with an extensive network of existing and potential customers. The Break-even cost chart for the choice between a company sales force and agency has thirty salespeople who would receive a commission based on their sales.

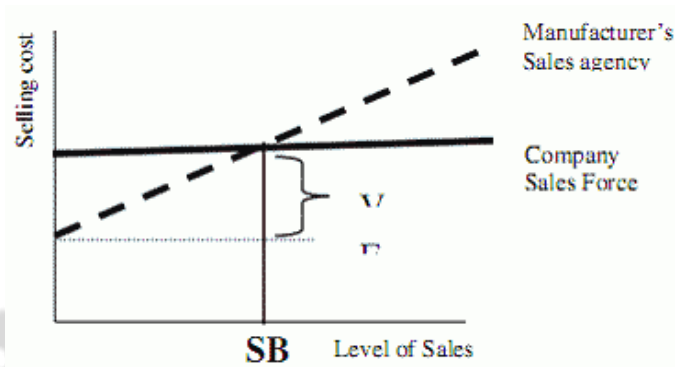


Figure 5: financial criteria in selecting channel alternatives

Financial criteria:

Each channel alternative selected by XYZ will generate different sales and hence will incur different costs. Most priori step in deciding channel alternatives is to be able to predict and control the sales that would result by a company's decision of personal sales team as compared to travel agency. Further, XYZ must work towards the estimation of the costs of selling differential volumes through each channel selected as the part of distribution mix of the firm. Using the services of an agency can be preferred over using company's own sales staff because of the differential cost structure of these two strategic options which concludes into a lower cost structure in case of an agency than company's own sales staff. However, because sales agents charge more commission than company's own sales team, costs are known to rise faster in case of a sales agency. Let us assume of a sales level (represented as SB) at which the selling costs for two different strategic options are same. XYZ must prefer sales agency at any sales volume below this specified sales level SB. This is why usually sales agents are used by smaller firms, or are usually used by firms in comparatively smaller territories where the sales volume is lower.

Control criteria:

Yet another decision that XYZ would have to take is to consider assessing control issues with the above said two options. Sales agency is an independent business unit which is motivated by an interest to maximize its own profits; XYZ might face more control issues with this option. The agents are usually known to concentrate more on the customers who usually buy bulk of goods or services from the whole product portfolio of the client companies' services than those most interested in a particular company's packages.

Further, sometimes the sales force might not possess the skills and knowledge required to market XYZ's unique travel package or it might also not be able to handle its promotions effectively.

Adaptive criteria. Each distribution channel further must be evaluated against the yardstick of adaptive criteria. Let us assume that as per the terms of the partnership between XYZ and the channel member, XYZ might have to sign in a five-year contract with the sales agency. It is also possible that during this period, XYZ's sales force might become even more competent in selling company's travel packages. But due to the contractual agreement, XYZ cannot stop using the services of the selected agency for at least next 5 years. Therefore, adaptive criteria can also serve as a mean to select the channel member.

6. Summary

As discussed before place or distribution is one of the very important parts of the marketing mix. A distribution channel is a chain of mediators which are used to pass a product or service to its end user. It might involve the use of wholesalers, retailers, distributors and even the relatively newer distribution channels like Internet. Distribution channels can further be divided into direct and indirect channels of distribution. Direct channels enable the consumer to purchase the products or services directly from the producer and the indirect channels on the other hand helps the consumer to buy the products or services from an intermediary like a wholesaler, distributor or retailer. A strategically chosen channel or intermediary can be of great help for any organization to accomplish its marketing and distribution objectives. Selecting right channel members involve a three-step process. These steps are:

- i) Searching prospective channel members
- ii) Selection criteria to determine suitable channel members
- iii) Locking suitable prospective channel members

Evaluating channel member alternatives is yet another decision marketing managers have to make on a day to day basis. Three basic evaluation parameters which are financial, control and adaptive can be used to evaluate channel alternatives.

