MARKETING FEATURE

Why Use Intermediaries in Marketing?

[By Surajit Sen Sharma]

Whether offline or online, if the consumer cannot find a place where he or she can complete the transaction, then regardless of the quality of the rest of the marketing mix, the marketing will be a disaster and sales will plummet. This is why channel management, especially the management of distribution channels, is crucial to those in marketing.

Unlike decisions regarding products, pricing, or promotion, distribution decisions require both intra-organizational as well as inter-organizational skills. The product's path to the market frequently involves interaction with external agencies or intermediaries that bridge the gap between the point of production and the point of sale.

Functions of an Intermediary

Deciding whether to use an intermediary in the distribution channel depends on many factors, but essentially it involves determining whether the needs of the consumer can successfully be met by the available resources and skills of the producer. The three basic functions performed by an intermediary in the distribution channel are:

1. **Transactional:** This function involves adding value to the distribution channel by bringing in the intermediary's resources to establish market linkages and customer contacts. The intermediary either directly undertakes the marketing and sales function or helps to establish buyer-seller relationships by serving as a link between the manufacturer and the retailer.

2. **Logistical:** This function involves the physical distribution of goods. It involves sorting and storing supplies at locations within the reach of the end customer. It also breaks up the bulk production of the manufacturer into smaller portions and may include the transportation of smaller shipments to intermediaries or retailers further down the channel of distribution.

3. **Facilitating:** Although often confused with logistics, the facilitating functions of intermediaries supplement the entire marketing flow of the product and are separate from logistics. The facilitating functions include financially supporting the marketing chain by investing in storage capabilities. They may include facilitating sales by helping the consumer buy even when he or she does not have cash (through financing plans, purchase agreements, etc.).

Together, these functions performed by the intermediary ensure market coverage, reduce the cost of market coverage, increase the availability of cash flow in the distribution channel, and increase end-user convenience. A producer can bypass an intermediary by elimination or substitution, but the tasks performed by the intermediary cannot be eliminated.

Advantages of Using an Intermediary

The advantages of using intermediaries stem from the core economics of supply-chain management: market coverage, customer contacts, lower costs, systematic cash flow, etc. The intermediary adds value to the marketing of the product by bringing in specialization, marketing knowledge, capacity to segment the market, and selling skills that allow the marketer to implement marketing strategies effectively.

Intermediaries providing logistic support increase convenience to both the producer and the consumer by offering effective delivery and pre- and post-purchase customer service as well as facilitating manufacturer services, making them indispensable to most mid- and small-scale producers.

Disadvantages of Using an Intermediary

Manufacturers quite often see intermediaries as parasites rather than assets. The disadvantages of using an intermediary stem from psychological apprehensions, market antecedents which have created such apprehensions, and lack of managerial skills or resources that are sufficient to balance and manage the intermediary. Fears, which may come true if the producer fails to manage the intermediary, might include:

- fear of losing control
- fear of losing customer contact

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- fear of losing customer ownership
- fear of opportunistic behavior
- fear of inadequate communication
- fear that the objectives of the intermediary will conflict with those of the producer
- fear that the intermediary will extract rather than add to value
- fear of poor market management

Furthermore, an intermediary may have many of the same fears (except for the last two on the list). These fears often undermine the working relationship between a producer and an intermediary and keep them from effectively utilizing each other's resources and maximizing the potential of the marketing mix.

If an Intermediary is Needed, It's Better to Use an Intermediary

Working with an intermediary is essentially a management issue. Effective intermediaries add great value to marketing, and it is necessary to create constructive and positive relationships with intermediaries through leadership and strategy. In addition, proper products, pricing, and promotion can allow the producer to remain in control of supply and demand. Customer contact and ownership can be built and retained through various marketing strategies, including promotions and market research, that help to identify the consumer. If closer examination of a distribution channel reveals that the use of an intermediary is necessary, it is better to use an intermediary than to inhibit marketing. The old principles of specialization and division of labor still matter in the marketplace. If the marketer lacks adequate resources, it is better to use a suitable intermediary and leave specialized tasks to specialists.