

many people still want “high touch” over “high tech,” or at least the choice. Banks are responding by opening more branches and developing more cross-selling and up-selling practices to take advantage of the face-to-face contact that results.

::: Channel Integration and Systems

Distribution channels don't stand still. New wholesaling and retailing institutions emerge and new channel systems evolve. We'll look at the recent growth of vertical, horizontal, and multichannel marketing systems; the next section examines how these systems cooperate, conflict, and compete.

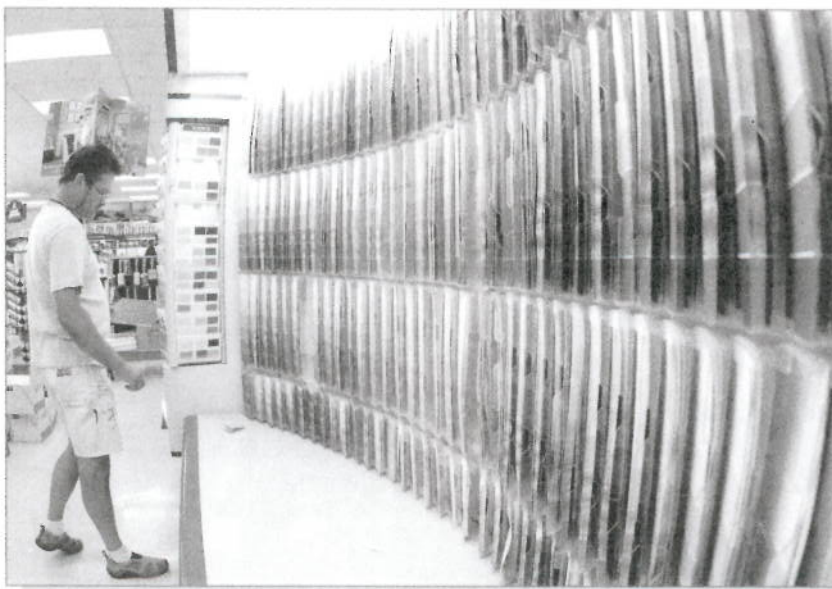
Vertical Marketing Systems

One of the most significant recent channel developments is the rise of vertical marketing systems. A **conventional marketing channel** comprises an independent producer, wholesaler(s), and retailer(s). Each is a separate business seeking to maximize its own profits, even if this goal reduces profit for the system as a whole. No channel member has complete or substantial control over other members.

A **vertical marketing system (VMS)**, by contrast, comprises the producer, wholesaler(s), and retailer(s) acting as a unified system. One channel member, the *channel captain*, owns the others or franchises them or has so much power that they all cooperate. “Marketing Insight: The Importance of Channel Stewards” provides some perspective on how *channel stewards*, a closely related concept, should work.

Vertical marketing systems (VMSs) arose as a result of strong channel members' attempts to control channel behavior and eliminate the conflict that results when independent members pursue their own objectives. VMSs achieve economies through size, bargaining power, and elimination of duplicated services. Business buyers of complex products and systems have been shown to value the extensive exchange of information they can obtain from a VMS.³⁹ VMSs have become the dominant mode of distribution in the U.S. consumer marketplace, serving between 70% and 80% of the total market. There are three types of VMS: corporate, administered, and contractual.

CORPORATE VMS A *corporate VMS* combines successive stages of production and distribution under single ownership. For example, Sears obtains over 50% of the goods it sells from companies that it partly or wholly owns. Sherwin-Williams makes paint but also owns and operates 3,000 retail outlets.



As part of its vertical marketing system, Sherwin-Williams both manufactures paint and sells it directly in its own retail outlets.

ADMINISTERED VMS An *administered VMS* coordinates successive stages of production and distribution through the size and power of one of the members. Manufacturers of a dominant brand are able to secure strong trade cooperation and support from resellers. Thus Kodak, Gillette, and Campbell Soup are able to command high levels of cooperation from their resellers in connection with displays, shelf space promotions, and price policies.

The most advanced supply-distributor arrangement for administered VMSs relies on **distribution programming**, which builds a planned, professionally managed, vertical marketing system that meets the needs of both manufacturer and distributors. The manufacturer establishes a department within the company called *distributor relations planning*. Its job is to identify distributor needs and build up merchandising programs to help each distributor operate as efficiently as possible. This