Evolution of Marketing Channels and Supply Chain in Marketing

Robert D. Tamilia
University of Quebec at Montreal, Canada
O.C. Ferrell
Raymond J. Harbert College of Business,
Auburn University, Alabama, USA
Karen Hopkins
Raymond J. Harbert College of Business,
Auburn University, Alabama, USA

Introduction

A review of the history of marketing channels and supply chain is closely linked to the economic development and growth of any country. A robust and growing industrial economy is a prerequisite for the emergence of specialized channel members working together to move goods efficiently and timely across many markets. Such an economy did not exist in many countries prior to the 1850s, especially in the USA and Canada.

Historians have documented the economic development well, focusing their scholarly efforts on particular industries or sectors of the economy (e.g., railroads, steel, etc.). They have also explored how the history of technology helped transform the economy into a mass market. The industrial revolution of the 19th c. led to the emergence of large scale manufacturers with their mass production methods and distribution and the rise of the professional manager (Chandler 1977, Tedlow 1990).

Our goal is to provide an overview of the history of marketing channels in the U.S. from 1850 to the present. We will review major developments in technology, transportation and communication that facilitated today's marketing channels and supply chains to encourage a better understanding of this evolution.

Background

Historically, marketing channels represent the transfer of ownership and information between a creator and its customers. A marketing channel then comprises one section of what we now know of as a supply chain. The supply chain management (SCM) literature refers to a supply chain as all the actors in a network designed to deliver products and services, consisting of upstream partners and downstream ones (Kozlenkova et al 2015). The upstream partners are those entities that create or supply raw materials and components of products, and everything that might go into making those materials available to firms who use those materials. The downstream partners are considered to be those channel members who create products and services from things supplied to them by the upstream partners, and then facilitate delivery of those products and services to the end user, or consumer. Technology and worldwide infrastructure has drastically shortened the time and space needed for products and information to travel through a marketing channel. In addition, the partners in functions like distribution and transportation each perform specific value-added activities. The ability to collect and disseminate information to supply chain partners and consumers has raised consumer expectations regarding pricing and product availability and enabled the concept of co-creation of products (Vargo and Lusch 2010).

Early Development (1850-1900)

New and innovative channel arrangements were challenging but beneficial to both industry and the whole economy. For example, the Singer Company first manufactured its sewing machines in 1851, and it first granted territorial rights to independent sales agents. These agents worked in branch stores under a very elementary franchise-type of arrangement of selling the machines on consignment. The Company then operated corporate-owned stores, which were staffed by well trained and knowledgeable people who could service and repair the machines as well as offer credit to customers.

In the late 19th century, economists developed the theory of economic utility. The theory stated that value is created not only by form utility (manufacturing) but also by time, place, and possession (ownership) utilities. The concept of utilities and value creation remedied a long historical bias against the marketing work performed by channel members as being unproductive because they produced nothing to the value of the product by charging more than what they paid for the products they sold.

As industrialization advanced, the maritime and rail infrastructure of the U.S. was transforming an agrarian economy into one of cities with more complex marketing channels and supply chains. For example, early transportation systems in the southern U.S. were developed to deliver products to the northern areas of the U.S. By 1860, 31,000 miles of railroad track scaled across the U.S., resulting in the early development of a land-based supply chain. This made distribution more efficient, increasing accountability and meeting delivery deadlines (Richey 2001).

Marketing channels before 1900 were created, developed and managed to a great extent by salesmen. Some were independent traveling “channel men”, often paid only on commission, while others worked for wholesale organizations. They opened up new markets, served current ones, and created channel links for their suppliers by crisscrossing the country in search of buyers in the USA, Canada and beyond. They were the strategic link between sources of supply and sources of demand, including the final consumer. They were an integral part of the history of marketing channel and supply chain. However, that history is largely unknown in the marketing literature.

Montgomery Ward and Sears advanced retailing using rail transportation to reach customers. Products could be shipped and customers could pick them up at the closest train station. By 1883, Montgomery Ward’s so-called “Wish Book” had grown to 240 pages and 10,000 items. Competition did not occur until 1886 when Richard Warren Sears introduced his catalog. By 1900, Wards had sales of $8.7 million and Sears had sales of $10 million (About U.S. Montgomery Ward, 2018).

1900-1950s

The first part of the 20th century saw real changes in transportation, communication and distribution systems. Besides trains, electric trolley lines in cities meant that people had easier access to retail stores, especially those located downtown. In 1900, there were 8,000 cars and by 1920, 8 million (*America on the Move*, 2018). By the late 1920s, regional airlines were developing. All of these changes in transportation and the movement from rural areas to cities opened the door for advances in wholesaling, retailing, and supply chain. Operations advanced when scientists demonstrated the value of analytic in the study of military logistics problems. In the late 1800s, fruits and vegetables relied on innovations in refrigeration to supply distant markets. In the 1940s and 1950s, the focus was on mechanization such as pallets and lifts to assist in materials handling.

1960- Present

Transportation management evolved with intermodal containers used with ships, trains, and trucks. Terms such as warehousing, materials handling, and physical distribution became common. SCM became widely used by the 1990s, even though its history predates the expression.

Today, SCM uses information technology, innovative transportation systems, and integration of management decisions with channel members who provide a dynamic and optimized solution. Rapid changes in the important variables in SCM are creating new challenges needing new solutions to gain efficiencies and provide channel members the opportunity to optimize their success. As online retailing advances and consumes change, firms need to respond quickly and nimbly to all the variables to provide a competitive edge. This requires monitoring, collaboration and proactive response to market conditions as was the case before (Chen & Thaker 2017). Innovations in technology will have even more impact on SCM changes in the future.

Past and Future Contributions

The channel domain is not a mainstream component of today's marketing curriculum or even a research focus. Yet textbooks, from the early 1900s to the 1970s had much to say about marketing channels. Various retail formats were presented often outlining the historical origin of retail institutions such as general stores, mail order houses, department stores, chain stores, supermarkets, discount stores, and others.

Today, few principles of marketing textbooks cover well the channels area. That was not case before marketing embraced the marketing concept and the marketing mix. The consumer orientation does not fit well with marketing channel, given that channel members cannot be managed in the same way as other marketing decision areas. The de-emphasis on channels in textbooks and in research is partly due to the nature of the domain being more B2B than B2C. Today, SCM is developing its own department in colleges of business and advancing scholarship in marketing channels and supply chain. In most firms, the chief supply chain officer is often more important than the chief marketing officer (CMO). It is important for academic marketing to better understanding the history of marketing channels and the evolution of SCM in order for the discipline to regain its rightful place in business.

References available upon request