

## Chapter 8

# Channels of Distribution

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Distribution of products constitutes an important element of marketing mix of a firm. It involves activities that are necessary to transfer ownership of goods to customers and also making available goods at the right time and place. Thus, it includes : (i) **channels of distribution**, and (ii) **physical distribution**. Channels include intermediaries like wholesalers and retailers who help in distribution of goods from producers to consumer. Physical distribution of products include activities like order processing transportation, warehousing, inventory control, insurance, etc.

After development of the product, the marketing manager has to decide channels or routes through which the product will flow from the factory to the potential customers. He has a number of alternatives available to him. The marketer may choose to distribute the product directly to customers or through middlemen including wholesalers, selling agents, and retailers. But the important point that he has to keep in mind is that the product should move efficiently and at minimum possible cost from the production department to the ultimate customers.

## 8.1 NATURE AND FUNCTIONS OF CHANNELS OF DISTRIBUTION

### Meaning of Channels of Distribution

According to Stanton, "A distribution channel consists of the set of people and firms involved in the transfer of title to a product as the product moves from producer to ultimate consumer or business users". It includes both the producer and the final user of the product as well as mercantile agents and merchant middlemen engaged in the transfer of title of goods and services.

Channels of distribution are also called the *trade channels*. They refer to the paths through which the ownership of a product passes during the course of its journey from the producer or manufacturer to the ultimate consumer or industrial user. In other words, at one extreme of the 'channel' there is producer or manufacturer and at the other extreme there is ultimate consumer as shown in Fig. 8.1. In between, there are intermediaries or middlemen who help the product in reaching the ultimate consumer or industrial user. When there is a direct contact between the producer and the consumer, it is called **Direct Marketing or Channel**. On the other hand, when middlemen are used for distribution of goods, it is called **Indirect Channel**.

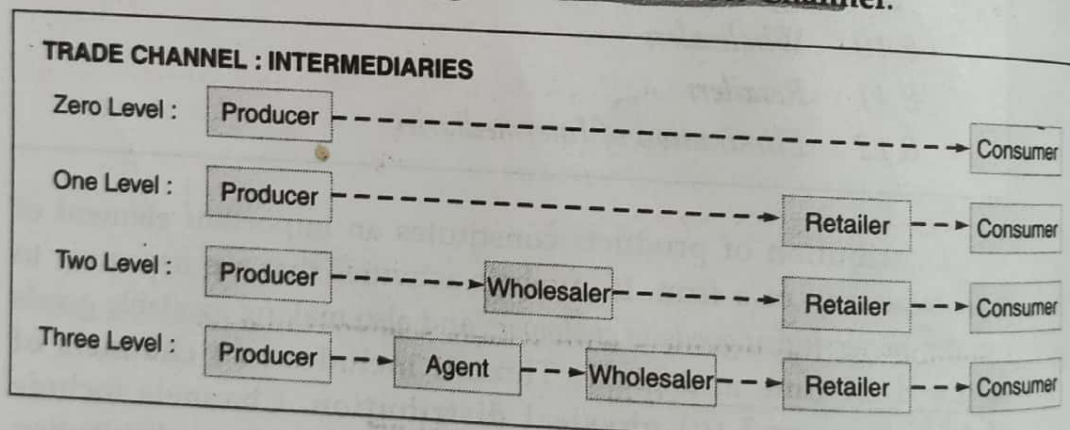


Fig. 8.1. Channels of Distribution for Consumer Goods.

### Direct Channels or Direct Marketing

This is the 'zero level channel'. It implies direct sale of goods and services by the producer to the consumers. There is no middleman in between the producers and the consumers. The producer creates a link with the consumers directly through door to door salesmen, direct mail or through his own retail shops.

The important methods of direct marketing include the following :

- (i) Retail stores as by Liberty, Nike and Bata.
- (ii) Door to door selling as by Eureka Forbes.
- (iii) Mail order selling, e.g., sale of books, medicines, etc.
- (iv) Selling through the internet, e.g., sale of electronic products and health products.
- (v) Selling through TV channels or sky shops.



### Channels of Distribution

Direct selling has gained popularity because of high costs of distributing the goods and services through middlemen. Direct selling is generally employed to sell industrial goods of high value to the industrial users and to sell consumer goods such as cloth, cosmetics, hosiery products and shoes. Small producers and producers of perishable commodities also sell directly to the local consumers.

Big firms (e.g., Eureka Forbes) adopt direct selling in order to cut distribution costs and because they have sufficient facilities to sell directly to the consumer. Under direct selling, all the marketing activities are performed by the producer or the manufacturer himself.

### Indirect Channels

Under indirect channel, a producer sells his products indirectly to the consumers through middlemen. A producer may use the services of any or all of the agents, wholesalers and retailers as discussed below:

- (i) **One Level Channel : Producer, Retailer and Consumer.** This is one stage distribution channel having one middleman i.e., retailer. Under this, the manufacturer sells to the retailers who in turn sell to the ultimate consumers. This channel of distribution is very popular these days because of the emergence of departmental stores, super markets and other big retail stores. The retailers purchase in large quantities from the manufacturer and perform certain marketing activities in order to sell the product to the ultimate consumer.
- (ii) **Two Level Channel : Producer, Wholesaler, Retailer and Consumer.** This is a 'traditional' two stage channel of distribution for the sale of consumer goods. There are two middlemen in this channel, namely, wholesaler and retailer. This channel is most suitable for the products with widely scattered market.
- (iii) **Three Level Channel: Producer, Wholesaler, Agent, Retailer and Consumer.** This is three stage channel of distribution under which a mercantile agent establishes a link between the wholesaler and the retailer. This channel is used where the wholesaler is not able to keep contacts with a large number of retailers.

### Distribution Channels for Industrial Products

The channels of distribution for consumer products are generally long, while channels for industrial products are short as retailers are not needed. Direct channel (i.e., zero stage) is very popular for selling of industrial products since industrial users place orders with the manufacturers of industrial products directly. Direct marketing of industrial products is generally followed in local markets and in cases the producers have facilities to despatch the products to industrial users directly.

Big producers of industrial products make use of the services of mercantile agents and even wholesalers to distribute their products to the industrial users. They do because they want to concentrate on production and keep



themselves fully free from the problems of distribution, or they do not have facilities for the distribution of their products.

### Functions of Distribution Channels

Channels of distribution help in the flow of goods from producers to consumers by creating possession, place and time utilities. The channels or middlemen perform the following functions :

- (i) **Procurement and Sorting.** The wholesalers procure supplies of goods from a number of sources and the goods are often not of the same quality, nature, and size. For example, a wholesaler of cashew nuts may procure a large quantity from different cashew nut producing areas, which would contain nuts of varied quality and sizes. He will sort the nuts into homogeneous groups on the basis of the size and quality and pack them on the basis of quality specifications.
- (ii) **Accumulation.** The middlemen undertake accumulation of goods into larger homogeneous stock. This helps in maintaining continuous flow of supply.
- (iii) **Allocation and Packing in Convenient Lots.** Generally middlemen buy the goods in bulk and then they repack them in small lots. For example, wholesaler buys bags of 100 kg rice and then repacks it in convenient packs of 1 kg, 2 kg, 5 kg and 10 kg.
- (iv) **Assortment.** There is usually a difference between the products made by manufacturers and the assortment or combinations desired by the users. For example, a hockey player may need a hockey, a ball, gloves, helmet, sport-wear, and a pair of shoes. Perhaps no manufacturer produces all these products in desired combinations. Middlemen procure variety of goods from different sources and deliver them in combinations desired by the customers.
- (v) **Risk-taking.** The merchant middlemen buy goods and thereby assume risks on account of price and demand fluctuations, spoilage, change of fashion, theft, etc.
- (vi) **Promotion.** Although promotion (advertising, sales promotion, etc) of goods and services is done by the producers, middlemen also undertake some promotional activities like window display, demonstration, distribution of gifts, etc to induce buying by the customers.
- (vii) **Price Negotiation.** Middlemen deal with manufacturers on the one hand and customers on the other. Arriving at deals that satisfy both the parties is another important function of the middlemen. They negotiate product price, quality, guarantee and other related matters with customers so as to win sales.

## 8.2 SIGNIFICANCE OF CHANNEL DECISIONS

The choice of channels, through which the product will be distributed, is an important area of decision-making in marketing management. Channel decisions refer to the managerial decision on the selection of the very suitable channel for distribution of goods from the producers to the users. The important reasons which place channel decisions in the area of policy decisions area are as follows :

- (i) **Influence as other marketing-mix variables.** The channels selected for the firm's product affect every other marketing decision like pricing, promotion, physical distribution, etc.
- (ii) **Part of Price.** The cost involved in the use of trade channels enters the price of the product that the ultimate consumer has to pay. If the costs of trade channels are very high, the firm may draw public criticism.
- (iii) **Long-term implications.** The channels chosen involve the firm in long-term commitments to other firms or middlemen. The relations between the manufacturer and the middlemen depend mainly on the choice of appropriate channels of distribution. Therefore, it is necessary that channel decisions are taken with great care.
- (iv) **Degree of channel control.** If the choice of channels is proper, fluctuations in production may be reduced. The manufacturer can obtain data regarding sales and stock of the middlemen and exercise control wherever he feels necessary. The stability of production will help to ensure steady employment and proper budgetary control.

## 8.3 FACTORS AFFECTING CHOICE OF DISTRIBUTION CHANNELS

Distribution channels are an important part of the 'marketing-mix' of any business enterprise. Selection of appropriate distribution channel is very important because several elements of the marketing-mix like price and promotion are closely inter-related with and inter-dependent on the distribution channels. A large number of middlemen are available through which a product can be distributed. Each middleman involves some cost which enters into the price of the product that the ultimate consumer has to bear. If a wrong choice of distribution channel is made, it will lead to increase in the distribution cost which will lead to either lowering down of profits or increasing the cost of the product to the customer. This is shown in Fig. 8.2:

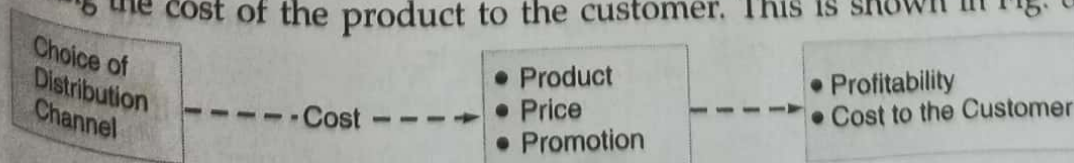


Fig. 8.2. Effect of Choice of Distribution Channel on Business and Customer.