

BASIC ASPECTS OF DISTRIBUTION CHANNEL

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Definitions

- **William J. Stanton** :- “A Channel of distribution (sometime a trade channel) for a product is the route taken by the title to the goods as they move from the producer to the ultimate consumer or industrial user.”
- **Cundiff, Still & Govani** :- “Marketing Channels are distribution networks through which producer's products flow to the market.”
- **Prof. McCarthy** :- “Any sequence of institutions from the producer or consumer including none or any number of middlemen is called channel of Distribution’.
- **Philip Kotler** :- “Every producer seeks to link together the marketing intermediaries that best fulfill the firm's objectives. Hence, marketing intermediaries is called the marketing channel (also trade channel or channel of distribution).”
- **Richard Buskirk** :- “Distribution Channels are the systematic economic institutions through which a producer of goods delivers them into the hands of their users.”

Channel of Distribution is.....

- Channel of distribution is a chain through which a producer transfers the ownership of his goods and services to his consumers.
- Marketing channels are set of interdependent organizations involved in the process of making the product or service available for use or consumption.
- They are the set of pathways a product or service follow after production.
- Channels of distribution are also known as middlemen, agent of distribution and distribution chains.
- A channel of distribution is a bridge to cover the gap between a manufacturer and consumers.

Meaning of Distribution Channel

- A **distribution channel** - set of independent organizations involved in the process of **making a product or service available** to the consumer or business user.
- Used to move the customer towards the product **or** the product to the customer.
- Organic development of an industry.
- A channel of distribution or trade channel is the route or path along which products flow from the point of production to the point of ultimate consumption or use.
- It starts with the producer and ends with the consumer. In between there may be several intermediaries or middlemen who operate to facilitate the flow of the physical product or its ownership from the producer to the consumer.

Meaning of Distribution Channel

- Important element of marketing mix-connecting product to consumers.
- Influences sales volume and profits
- Determines where and when the product will be available to users along with which services
- Helps in reducing the effects of fluctuations in production-maintain sufficient stock of goods
- A channel of distribution shows three types of flows:
 - 1.Products flow downwards from the producer to the consumers.***
 - 2.Cash flows upwards from customers to the producer as payment for products.***
 - 3.Marketing information flows in both directions.***

Different Types of Distribution

1) Manufacturer-consumer (Direct selling):

- Shortest and simplest channel
- No middleman between the producer and consumer
- Producers sell directly to customers through door-to-door salesmen , direct mail , own retail stores, e.g.. BATA India Ltd.
- Used generally for selling shoes , clothes , books, etc.
- Very fast and economical
- Expert services of middlemen are not available
- Large investment is required.
- When no of products are less this is best method

• 2) Manufacturer-retailer-consumer:

- Manufacturer sells to one or more retailers who sell to consumers
- This channel is popular when retailers are big and buy in large quantities ,e.g. departmental stores , super markets.
- Generally used for distribution of consumer durables and products of high value like automobiles, home appliances,etc.
- Relieves manufacturer of the burden of selling and provides control over distribution.

Different Types of Distribution

- **Manufacturer-wholesaler-retailer-consumer:**

- Traditional or normal channel
- Suitable where producers have limited finance and narrow product line
- Channel used in case of consumer durables which are not subject to frequent changes in fashion.
- FMCG Products

- **4) Manufacturer-agent-retailer-consumer:**

- Used when retailers are few or geographically concentrated
- Commonly used to sell agricultural products, machinery and equipment, etc.
- Food Products

- **5) Manufacturer-agent-wholesaler-retailer-consumer:**

- Longest channel
- Producer hands over entire output to the agent who sales them to wholesalers
- In case of cloth this channel is widely used
- Results in wider distribution of products
- Usefull for longer shelf life of product

Role/Over all Functions of Channel

- Channels of distribution are very crucial to the success of any product in the market.
- Channels of distribution can be of many type ranging from being very short to being very long.
- The choice of a particular channel of distribution shall depend on many factors like the perishability of the product, customer preferences etc.
- The middlemen also play a lot many important functions like risk taking , transportation , etc. without which distribution of goods would have been very difficult for the manufacturer.
- Wholesalers are an important segment of the channels of distribution and there may be different types of wholesalers.
- Wholesalers marketing decisions are effected by a lot many factors like pricing decisions, promotion decisions, place decisions etc.

FUNCTIONS OF DISTRIBUTOR CHANNELS



FACTORS TO BE CONSIDERED IN DETERMINING CHANNEL OF DISTRIBUTION

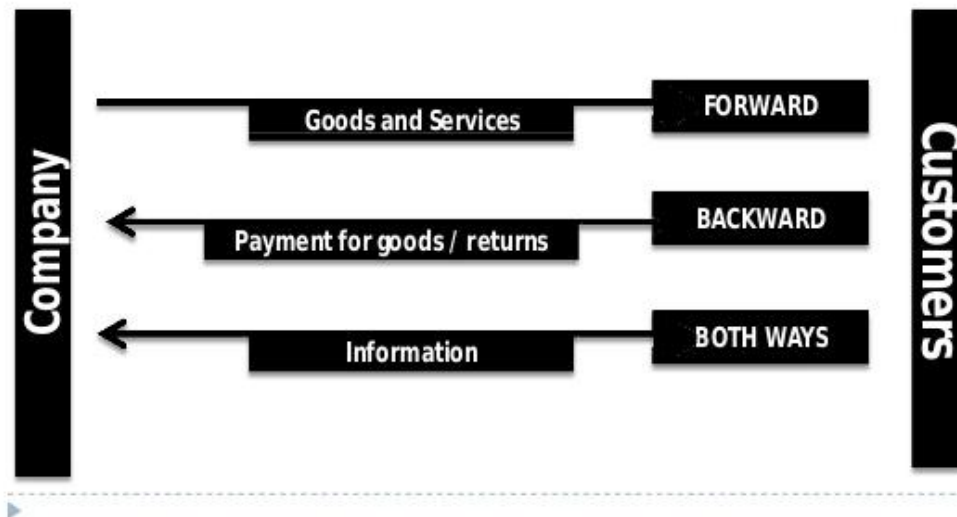
1. PRODUCT CONSIDERATIONS	2. MARKET CONSIDERATIONS
(a) Unit Value	(a) Consumer or Industrial Market
(b) Perishability	(b) Number & Location of Buyers
(c) Size,Bulk & Weight	(c) Size & Frequency of Order
(d) Standardisation	(d) Buying Habits
3. COMPANY CONSIDERATIONS	4. MIDDLEMEN CONSIDERATIONS
(a) Market Standing	(a) Availability
(b) Financial Resources	(b) Attitudes
(c) Management	(c) Services
(d) Volume of Production	(d) Sales Potential

Connectivity through Intermediaries

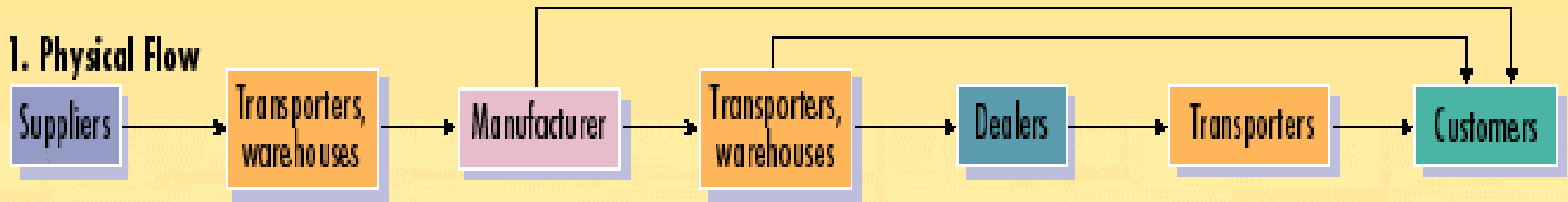


There can be three flows:

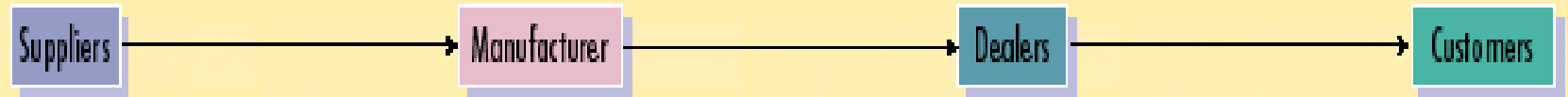
Three Flows Recognized



1. Physical Flow



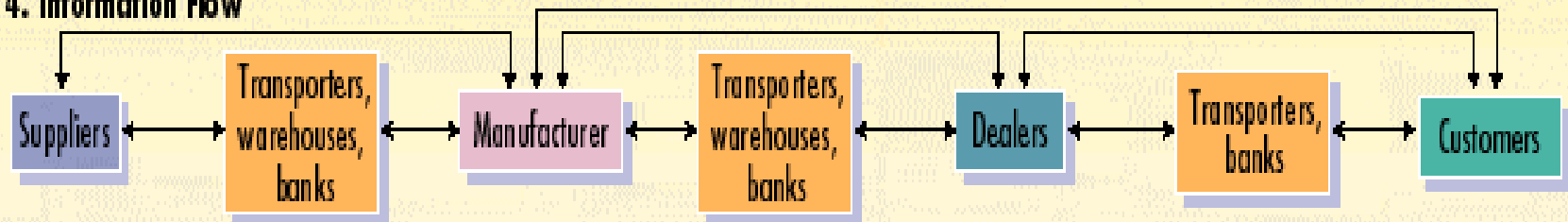
2. Title Flow



3. Payment Flow



4. Information Flow



5. Promotion Flow



Function of Channels of Distribution

- 1. Helpful in Price Determination** : Channels of distribution are very helpful in determining the price of products because they are in direct touch with consumers. They can estimate paying capacity of consumer for product. Therefore, the manufacturer must invite the suggestion of middleman while determining the price of his products.
- 2. To Manage Finance** : All the manufacturers have limited financial resources. Middlemen help manufacturers in making adequate financial resources available. They purchase the goods produced by manufacturers and make the payment for that. This way, they help in solving the financial problems of manufacturers.

FUNCTIONS OF DISTRIBUTION CHANNELS

- 3. To Make the Process of Distribution Easy** : It is not possible for a producer, particularly a producer of consumer goods to be in direct touch with all the consumers. Therefore it is not very practical for a producer to distribute his goods to his consumers directly. Channel of distribution help producers in this regard. They distribute the goods produced by producers at right time and right place to the right consumers.
- 4. Promotional Activities** : Channels of distribution help producers not only in the distribution of goods and services but also in promoting the sales of these producers. Wholesalers advertise for the goods dealt with by them and retailers help in increasing the sales by adopting the measures of sales promotion. Retailers display the goods in their showrooms so that more and more consumers may be attracted.

5. Helpful in Communication: It is the time of Change. Habits, tastes, nature and attitudes of consumers keep on changing frequently. In the light of these changes, it becomes imperative for every producer to make necessary changes in his products.

- Channels of distribution helps producers in communicating the changes in products to the consumers and in communicating the changes in habits, tastes, likings and preferences of consumers to the manufacturers.
- Thus, channel of distribution play an important role in communicating the needs of consumers to the manufacturers and policies of manufacturers to the consumers. It increases the sales of manufacturers.

FUNCTIONS OF DISTRIBUTION CHANNEL

6. Matching of Demand and Supply : The most important function of middlemen is to collect goods and services from many producers so that consumers may select from among a large number of alternatives.

- In the words of **Wroe Alderson** , "The goal of marketing is the matching of segments of demand and supply." Thus, the middleman play the game of matching demand and supply of goods and services in a market.

7. Other Functions : Other functions of channels of distribution may be –

- a) To stabilize the prices;
- b) To help in forecasting the demand for a product;
- c) To help in marketing research;
- d) To help in production activities.

Factors Determining the Choice of Distribution Channels

- There are a number of factors-both objective and subjective varying from company to company which govern choice or selection of channel of distribution.
- But there are some which stand out and influence channel of distribution choice in all cases.
- They may be described as under :-
 - A. Factors Relating to Product Characteristics
 - B. Factors Relating to Company's Characteristics
 - C. Factors Relating to Market or Consumer's Characteristics
 - D. Factors Relating to Middlemen Considerations
 - E. Factors Relating to Environmental Characteristics

A. Factors Relating to Product Characteristics

- Product manufactured by a company is a governing factor in the selection of the channel of distribution.
- Product characteristics are as follows:-
 - 1) Industrial/Consumer Products.
 - 2) Perishability.
 - 3) Unit Value.
 - 4) Style Obsolescence.
 - 5) Weight and Technicality.
 - 6) Standardized Products.
 - 7) Purchase Frequency.
 - 8) Newness and Market Acceptance.
 - 9) Seasonality.
 - 10) Product Breadth.

Characteristics:-

- 1. Industrial/Consumer Product** :- When the product being manufactured and sold is industrial in nature, direct channel of distribution is useful because of the relatively small number of customers need for personal attention, salesman technical qualifications and after sale servicing etc. However, in case of a consumer product, indirect channel of distribution, such as wholesalers, retailers is the most suitable.
- 2. Perishability** :- Perishable goods, such as vegetables, milk, butter, bakery products, fruits, sea foods etc. require direct selling as they must reach the consumers as easily as possible after production because of the dangers associated with delays and repeated handling.

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- 3. Unit Value** :- When the unit value of a product is high, it is usually economical to choose direct channel of distribution such as company's own sales force than middlemen. On the contrary, if the unit value is low and the amount involved in each transaction is generally small, it is desirable to choose indirect channel of distribution, i.e. through middlemen.
- 4. Style Obsolescence** :- When there is high degree of style obsolescence in products like fashion garments, it is desirable to sell direct to retailers who specialize in fashion goods.
- 5. Weight and Technicality** :- When the products are bulky, large in size and technically complicated, it is useful to choose direct channel of distribution.

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- 6. Standardized Products** :- When the products are standardized each unit is similar in shape, size, weight, colour and quality etc. it is useful to choose indirect channel of distribution. On the contrary, if the product is not standardized and is produced on order, it is desirable to have direct channel of distribution.
- 7. Purchase Frequency** :- Products that are frequently purchased need direct channel of distribution so as to reduce the cost and burden of distribution of such products.
- 8. Newness and Market Acceptance** :- For new products with high degree of market acceptance, usually there is need for an aggressive selling effort. Hence indirect channels may be used by appointing wholesalers and retailers as sole agents. This may ensure channel loyalty and aggressive selling by intermediaries.

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- 9. Seasonality** :- When the product is subject to seasonal variations, such as woollen textiles in India, it is desirable to appoint sole selling agents who undertake the sale of production by booking orders from retailers and direct mills to dispatch goods as soon as they are ready for sale as per the order.
- 10. Product breadth** :- When the company is manufacturing a large number of product items, it has greater ability to deal directly with customers because the breadth of the product line enhances its ability to clinch the sale. Hence, direct channel is the best choice, such as Delhi Cloth Mills, Bombay Dyeing, mafatlal Group of Cotton Mills, Calico Mills, Bata Shoe Company etc. They have got wide product range and thus sell their products direct through their own multiple shops or authorized retail shops.

B. Factors Relating to Company's Characteristics

- The choice of channel of distribution is also influenced by company's own characteristics as to its size, financial position, reputation, past channel experience, current marketing policies and product-mix etc.
- In this connection, some of the main factors are as follows:
 - 1) Financial Strength.
 - 2) Marketing Policies.
 - 3) Size of the Company.
 - 4) Past channel Experience.
 - 5) Product-Mix.
 - 6) Reputation.

Characteristics:-

- 1. Financial Strength :-** The financial strength of the company also determines the channel of distribution. A company which is financially sound may engage itself in direct selling. On the contrary, a company which is financially weak has to depend on intermediaries and, therefore, has to select indirect channel of distribution, such as wholesalers, retailers, with strong financial background.
- 2. Marketing Policies :-** The marketing policies formulated by a company play a very important role in influencing channel choice. The policies relevant to channel decision may relate to delivery, advertising, after sale service and pricing etc. For instance, a company which likes to have a policy of speedy delivery of goods to ultimate consumers may prefer direct selling and thus avoid intermediaries and will adopt a speedy transportation system.

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3. Size of the Company :- A large-sized company handling a wide range of products would prefer to have a direct channel for selling its products. On the contrary, a small-sized company would prefer indirect selling by appointing wholesalers, retailers etc.

4. Past Channel Experience :- Past channel experience of the company also influences the choice of selection of channel of distribution. For instance, in case of an old and established company its past good experience of working with certain kind of intermediaries will like to opt for the same channel. However, different will be the case of reverse situation.

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5. Product-Mix :- The wider is the company's product-mix, the greater will be its strength to deal with its customer directly. Similarly, consistency in the company's product-mix ensure greater homogeneity or uniformity and similarity in its marketing channels.

6. Reputation :- It is said that reputation travels faster than the man. It is true in the case of companies also who wish to select channel of distribution. In case of companies with outstanding reputation like Tata Steel, Bajaj Scooters, Hindustan Levers etc., indirect channel of distribution (wholesalers, retailers etc.) is more desirable and profitable.

C. Factors Relating to Market or Consumer's Characteristics

- Market or consumer's characteristics refer to buying habits, location of market, size of orders etc.
- They influence the channel choice significantly.
- They may be summarized as under:
 - 1) Consumers' Buying Habits.
 - 2) Location of the Market.
 - 3) Number of Customer.
 - 4) Size of Order

Characteristics:-

- 1. Consumers' Buying Habits** :- Consumers' buying habits also influence the channel decision. If the consumer expects credit facilities or desires personal services of the salesman or desires to make all purchases at one place, the channel distribution may be short or long depending on the capacity of the company for providing these facilities. If the manufacturer can afford these facilities, the channel will be shorter otherwise longer.
- 2. Location of the Market** :- When the customers are spread over a wide geographical area, the long channel of distribution is most suitable. On the contrary, if the customer are concentrated and localized, direct selling would be beneficial.

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- 3. Number of Customer :-** The number of customers also influence the channel decision. For instance, if the number of customers is quite large, the channel of distribution may be indirect and long, such as wholesalers, retailers etc. On the contrary, if the number of customers is small or limited, direct selling may be beneficial.
- 4. Size of Orders :-** Size of orders of the customers influences the channel decision significantly. Where customers purchase the product in large quantities, direct selling may be preferred. On the contrary, where customers purchase the product in small quantities, frequently and regularly, such as cigarettes, matches etc., long channel (wholesalers, retailers etc.) of distribution may be preferred.

D. Factors Relating to Middlemen Considerations

- The choice of the channel of distribution is also influenced by the middlemen consideration.
- They may include the following:
 - 1) Sales Volume Potential.
 - 2) Availability of Middlemen.
 - 3) Middlemen's Attitude.
 - 4) Services Provided by Middlemen.
 - 5) Cost of Channel.

Characteristics:-

- 1. Sales Volume Potential :-** In selecting channel of distribution, the company should consider the capability of the middlemen to ensure a targetted sales volume. The sales volume potential of the channel may be estimated through market surveys. However, it should be kept in mind that no single channel is capable for achieving the targetted sales potential. Two or more channels may be required for this purpose.
- 2. Availability of Middlemen :-** Availability of the right type of middlemen is also an important consideration in making channel choice decision. In this connection, the company should make efforts to select aggressive oriented middlemen. In case if they are not available, it is desirable to wait for some time and then to pick up. In such cases, the company should manage its own channel so long the right type of middlemen are not available.

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3. Middlemen's Attitude :- The attitude of the middlemen towards the policies of the company also influences the channel decision. For example, if the company follows the resale price maintenance policy, the choice is limited. On the contrary, if the company allows the middlemen to adopt their own price policy, the choice is quite wide. Quite a large number of middlemen would be interested in selling company's products.

4. Services Provided by Middlemen :- If the nature of product requires after-sales services, repair services etc., such as automobiles, cars, scooters etc., only those middlemen should be appointed who can provide such services, otherwise the company will adopt direct selling channel.

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5. Cost of Channel :- Another factor considered is the cost involved in the distribution. Direct selling generally is costlier and thus distribution arranged through middlemen is more economical. In this connection, it must be kept in mind that the channel which ensures efficient distribution at the least expenses and which secures the desired volume of sales should be chosen.