

CHANNELS OF DISTRIBUTION

A distribution channel, in simple terms, is the flow that a good or service follows from production or manufacturing to the final consumer/buyer. Distribution channels vary but typically include a producer, a wholesaler, a retailer, and the end buyer/consumer. The target for any business is to bring their product or service to the market and make it available for consumers by creating a distribution path or channel. The link between producers and the end consumer is normally intermediaries, such as wholesalers, retailers, or brokers. Distribution channels affect the prices of goods and their positioning in their respective markets. A distribution channel must be efficient and effective. It means that transportation and other logistical requirements need to be used at maximum capacity and at the lowest rates possible.



LEARNING OUTCOMES

After studying this lesson the learner:

- defines channels of distribution in warehouse;
- explains the functions of distribution channels in warehouse;
- lists the types of distribution channels in warehouse;
- defines the types of middlemen in a warehouse;
- identifies the right distribution channel in warehouse;
- recalls designing distribution channels in warehouse.

21.1 DEFINE CHANNELS OF DISTRIBUTION

The term distribution collectively refers to all the acts or services rendered by various agencies. It consists of an operation or series of operations which physically brings the



goods from the producer into the hands of the final user. The Word Channel is derived from the French Word “Cannal”. The channel of distribution refers to the pathway taken by the goods as they flow from the point of production to the point of consumption.

Channel of distribution refers to those people, institutions or merchants who help in the distribution of goods and services.

According to the American Marketing Association, “A channel of distribution or marketing channel is the structure of intra – company organization units and extra company agents and dealers, wholesalers and retailers through which a commodity, product or service is marketed.”

Philip Kotler defines channel of distribution as “a set of independent organizations involved in the process of making a product or service available for use or consumption”.

21.1.1 Importance

A channel of distribution for a product is the route taken by the title to goods as they move from the producer to the ultimate consumer or industrial user. The channel of distribution is very important to the producer and the consumer. There is a big gap between the producer and the consumer and the gap is shrinking by the channel of distribution. The middlemen in the channel of distribution collect the outputs of various products, subdivide the products according to the needs of the consumers and gather this in the assortment wanted and disperse this assortment to consumers or industrial buyers. The middlemen are specialists in concentration, equalization and dispersion. They create time, place, form and possession utilities.

Channels of distribution provide convenience to customers, who can get various items at one store. If there were no channels of distribution, customers would have faced a lot of difficulties. A distribution channel is a chain of business intermediaries through which a good or service passes until it reaches the final buyer or the end consumer.

21.1.2 Understanding Distribution Channels

A distribution channel is the path by which all goods and services must travel to arrive at the intended consumer. Conversely, it also describes the pathway payments made from the end consumer to the original vendor. Distribution channels can be short or long, and depend on the amount of intermediaries required to deliver a product or service.

Goods and services sometimes make their way to consumers through multiple channels, a combination of short and long. Increasing the number of ways a consumer is able to find a good can increase sales. Longer distribution channels can also mean less profit each intermediary charges a manufacturer for its service.



Channels are broken into two different forms-direct and indirect. A direct channel allows the consumer to make purchases from the manufacturer while an indirect channel allows the consumer to buy the goods from a wholesaler or retailer. Indirect channels are typical for goods that are sold in traditional brick-and-mortar stores. Conversely, a direct or short channel may mean lower costs for consumers because they are buying directly from the manufacturer.



INTEXT QUESTIONS 21.1

1. Define channels of distribution?
2. What do you understand about distribution channels?
3. _____ is provided by channels of distribution to customer
 - a). Convenience
 - b). Money
 - c). Satisfaction
 - d). Sales

21.2 FUNCTIONS OF DISTRIBUTION CHANNELS

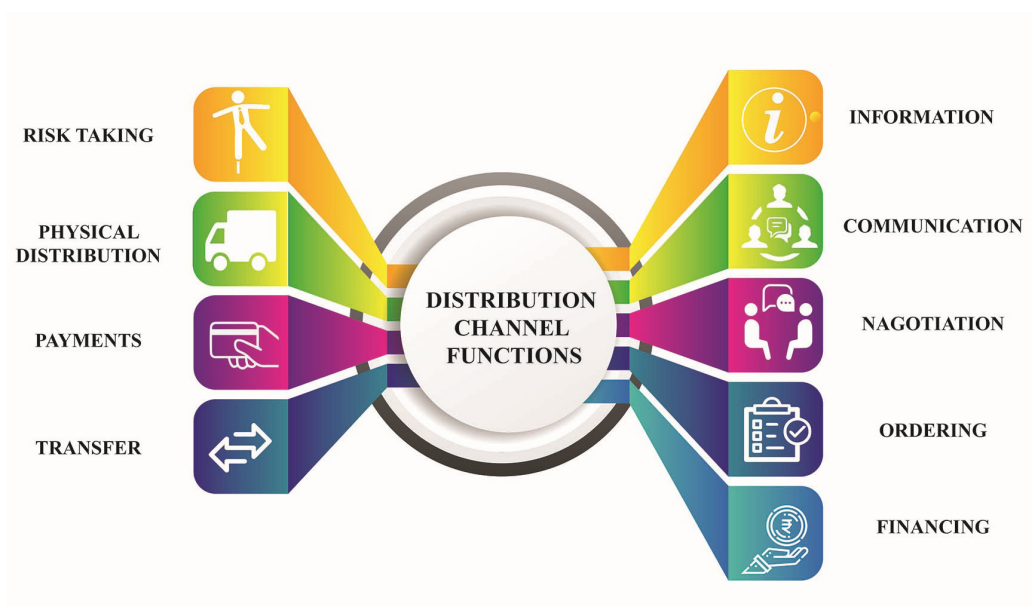


Fig. 21.1: Distribution Channel Functions



Distribution channels perform a number of functions that make possible the flow of goods from the producer to the customer. These functions must be handled by someone in the channel. Though the type of organization that performs the different functions can vary from channel to channel, the functions themselves cannot be eliminated. Channels provide time, place, and ownership utility. They make products available when, where, and in the sizes and quantities that customers want.

21.2.1 Breaking bulk

Distribution channels provide a number of logistics or physical distribution functions that increase the efficiency of the flow of goods from producer to customer. Distribution channels create efficiencies by reducing the number of transactions necessary for goods to flow from many different manufacturers to large numbers of customers. This occurs in two ways. The first is called breaking bulk. Wholesalers and retailers purchase large quantities of goods from manufacturers but sell only one or a few at a time to many different customers. Second, channel intermediaries reduce the number of transactions by creating assortments providing a variety of products in one location so that customers can conveniently buy many different items from one seller at one time. Channels are efficient.

21.2.2 Transportation and storage

The transportation and storage of goods is another type of physical distribution function. Retailers and other channel members move the goods from the production site to other locations where they are held until they are wanted by customers. Channel intermediaries also perform a number of facilitating functions, functions that make the purchase process easier for customers and manufacturers. Intermediaries often provide customer services such as offering credit to buyers and accepting customer returns. Customer services are oftentimes more important in B2B markets in which customers purchase larger quantities of higher-priced products. Wholesalers buy products to make them available for retailers and sell products to other channel members. Retailers handle transactions with final consumers.

21.2.3. Information

Channel members can provide two-way communication for manufacturers. They may supply the sales force, advertising, and other marketing communications necessary to inform consumers and persuade them to buy. And the channel members can be invaluable sources of information on consumer complaints, changing tastes, and new competitors in the market.



INTEXT QUESTIONS 21.2

1. Give the major distribution functions
2. _____ channel member transacts with final customer
 - a. Retailer
 - b. Wholesaler
 - c. Distributor
 - d. Commission agent



Notes

21.3 TYPE OF DISTRIBUTION CHANNELS

Broadly, Channel of distribution structure is as follows:

- (1) Direct Channel
- (2) Indirect Channel.

1. Direct Channel or Zero Level Channels

When the producer or the manufacturer directly sells the goods to the customers without involving any middlemen, it is known as direct channel or zero level channels. It is the simplest and the shortest mode of distribution. Selling through post, internet or door to door selling etc. are the examples of this channel.



The direct distribution channel does not make use of any intermediaries. The manufacturer or producer sells directly to the end consumer. The direct form of distribution is typically used by producers or manufacturers of niche and expensive goods and items that are perishable. The main drawback of this direct channel:

- It is uneconomical to have direct contact with the customers, who are countless and scattered all over.
- It is not possible for a direct contact with the multi millions of potential customers for the products.



2. Indirect Channels

When a manufacturer or a producer employs one or more middlemen to distribute goods, it is known as indirect channel. The indirect distribution channel makes use of intermediaries in order to bring a product to market. The Following are the main forms of indirect channels:

A. Manufacturer-Retailer-Consumer (One Level Channel):

The one-level channel entails a product coming from a producer to a retailer and then to the end buyer. The retailers buy the product from the manufacturer and sell it to the end buyers. The one-level channel is ideal for manufacturers of furniture, clothing items, toys, etc.



In the channel there is an intermediary wholesaler / retailer. A manufacturer sells goods to consumers through these intermediaries. There is a gap between the manufacturers and the consumer. This method is adopted when the buyers are large, for perishable goods that need speed in distribution. In this channel the manufacturers use the functions of a wholesaler or retailer. Generally, automobile appliances, clothings, and shoes are sold directly to retailers.

B. Manufacturer-Wholesaler-Retailer-Customer (Two level channels):

The two-level channel follows the following process:



Wholesalers generally make bulk purchases, buy from the producer, and divide the goods into smaller packages to sell to retailers. The retailers then sell the goods to the end buyers. The two-level channel is suitable for more affordable and long-lasting goods with a larger target market.

C. Manufacturer-Agent-Wholesaler-Retailer-Consumer (Three level channels):



The three-level channel is similar to the two-level channel, except the goods flow from the producer to an agent and then to a wholesaler. Agents assist with selling the goods



and getting the goods delivered to the market promptly. The agents normally receive a commission and are allocated the task of product distribution in a particular area. The three-level channel is suitable for goods that are in high demand and with a target market that stretches across a country.



This level comprises three middlemen i.e. agent, wholesaler and the retailer. The manufacturers supply the goods to their agents who in turn supply them to wholesalers and retailers. This level is usually used when a manufacturer deals in limited products and yet wants to cover a wide market.

D. Modern Distribution Channel

The Internet is the Modern-Day Distribution Channel. With e-commerce growing tremendously over the past couple of decades, manufacturers and producers are now able to use online marketplaces to sell their goods. The internet is also ideal for service providers.

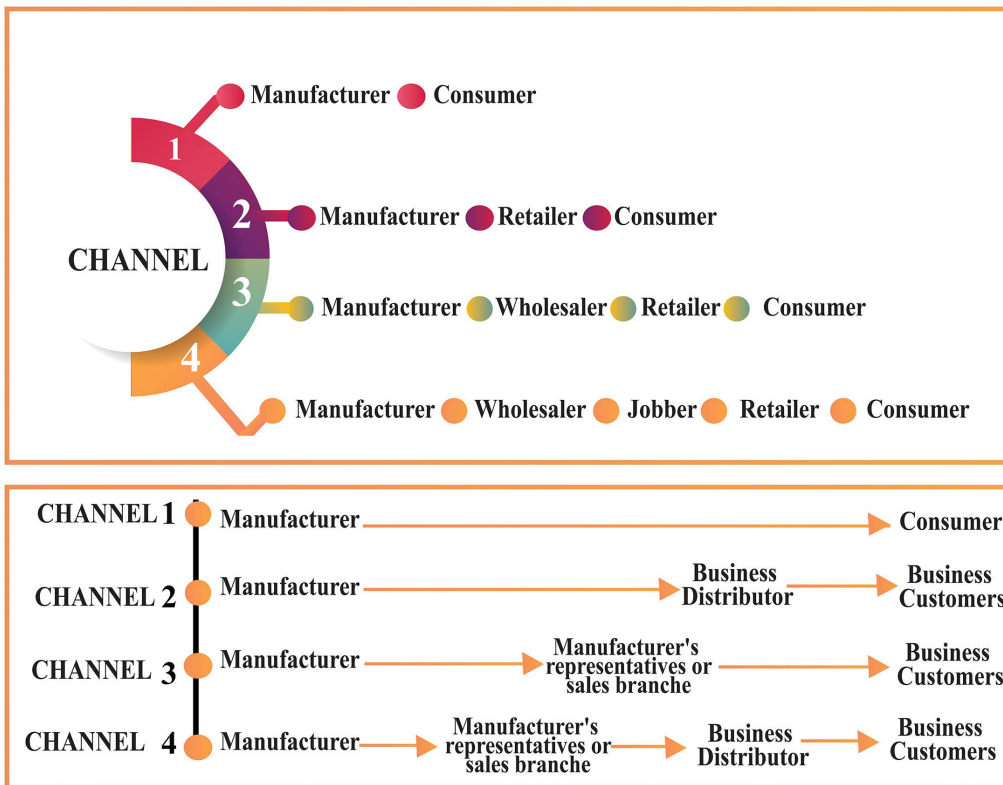


Fig. 21.2: Type of Distribution Channels



INTEXT QUESTIONS 21.3

1. How many types of distribution channels are available?
2. Which channel is known as three level channels?
3. Direct channel is also called as _____ channel
 - a. Zero level
 - b. One level
 - c. Two level
 - d. Three level

21.4 TYPES OF MIDDLEMEN

Middlemen refer to, such institutions or business concerns situated in the marketing channels at points between the producer and the final buyers.

A. Definition

According to the American Marketing Association, “A middleman is one who specializes in performing operations or rendering services that are directly involved in the purchase and sale of goods in the process of their flow from the producer to the final consumer.”

B. Importance of Middlemen

Middlemen are very important in the modern ever widening market, by making the distribution easy and smooth. Organized markets for many commodities are created by them. They create time, place and possession utility. Middlemen concentrate their effort on marketing and distribution of goods.

21.4.1 Functions of Middlemen

Middlemen’s functions are known as marketing functions. The marketing functions are the functions of exchange, functions of physical supply and facilitating functions. The functions of middlemen are:

- The middlemen are the connecting link between the sellers and buyers. They help the sellers and buyers to enter into a contract of sale or purchase.
- They direct the flow of goods from the producer to the ultimate consumer.
- Merchant middlemen perform the function of merchandising by making the goods fit for the market segmentation.
- Middlemen are responsible for the flow of goods.

- Large scale production is possible with the help of middlemen. They collect huge orders and large purchases of products lead to large scale production.

21.4.2 Agent Middlemen

They are mostly engaged in wholesale dealing. They assist in negotiating sales or purchase or both on behalf of the seller or buyer. They do not take the title of the goods which they handle. The different kinds of agent middlemen are:

1. **Broker:** A broker is an agent. He represents the buyer or the seller in negotiating purchases or sales without having physical control over the goods involved. His main service is to bring the buyer and the seller together. He is the agent of the owner of goods, seeking a buyer other than the agent of a buyer who is seeking for supply.
2. **Commission Agent:** Commission agent is an agent – individual, firms or even companies. It negotiates the sales of goods belonging to the principal. It customarily exercises physical control over the sale of goods. It has the power on price, and terms of sale under the condition that it must obey the instructions of the principals.
3. **Manufacturer's Agent:** Manufacturer's agents are employed by the manufacturers to sell their products. The agent receives a percentage of commission based on his sales. He uses his techniques. He employs his sales representatives, who work for him. Selling is his main function. These types of middlemen are important in the marketing of industrial goods.
4. **Selling Agents:** Selling agents are independent middlemen. He operates on a contractual basis. He negotiates all sales of a specified line of merchandise or the entire output of its principal. He has authority over the price, terms and other conditions of sale. He is the sole selling agent for the line.
5. **Resident buyers:** Resident buyer is an independent agent, and he specializes in buying for retailers. He receives compensation or a fee on commission basis. He operates in lines of trade, such as furniture, garments etc. He has his office in the marketplace. The resident buyers are purely and simply an independent agent specialized in buying for principals who are retailers.
6. **Auctioneers:** They are generally appointed by business firms. The auctioneer receives the goods and invites bids for the goods. The highest bidder gets the goods and the auctioneer collects the amount from him.

21.4.2 Merchant Middlemen

Merchant middlemen buy and sell goods on their own account and risk. They take the title of goods. They resell the goods at profit. They are wholesalers and retailers.





A. Functions of Merchant Middlemen

- They are the connecting link between the producers and consumers and goods are supplied where they are in demand.
- They match the demand with production.
- They perform the important functions of advertisement, display etc.
- They know the purchasing powers of customers and by informing the producers, fix reasonable prices.
- They offer too many communications between producers and customers.

21.4.3 Wholesaler

A wholesaler is a businessman who specializes in performing wholesale activities. The word wholesaler means to market goods in relatively large quantities.

A. Definition

According to the American Marketing Association, "Wholesalers buy and resell merchandise to retailers and other merchants and to industrial institutions, and commercial users, but do not sell in significant amounts to ultimate consumers."

B. Functions of the Wholesalers

- **Buying and Assembling:** The wholesalers procure varieties of goods from various producers regularly and preserve them in his shop for resale.
- **Warehousing:** The wholesaler stores goods in large quantities in his own or hired warehouses. This ensures uninterrupted supply of goods to the retailers.
- **Transporting:** Transportation involves the bringing of goods from the plant door to his godown and also from his godown to the retailer's shop.
- **Financing:** He offers financial assistance to the retailers through extension of credit facilities. On the other hand, he buys from the manufacturers for cash or for a relatively shorter period of credit.
- **Risk bearing:** Since he acquires the title over the goods in which he deals, he assumes the risk arising out of changes in demand, spoilage and deterioration in quality of the goods kept in his godown.



21.4.4 Retailers

The word retailer is derived from a French word *retailen* which means “to cut again.”

- A. Definition** - According to Cundiff and Still, “a retailer is a merchant or occasionally an agent whose main business is selling directly to the ultimate consumer.”
- B. Importance** - It is one of the important functions of the marketing process. The retailer is an intermediary in the marketing channel of distribution. He is both a marketer and consumer. He is a specialist in selling goods to the ultimate consumer. Retailers create place, time and possession utilities. He supplies the needed goods from the place of production to the place where it is demanded. He sells the goods at a reasonable price at the time when the customers want the goods.

C. Services of the Retailer

- The primary job of a retailer is to assemble different varieties of goods from various wholesalers.
- A retailer helps in the physical flow of the goods from the producer to the consumer. The retailer satisfies the daily wants of the people by creating place utility
- He provides the availability of many varieties of goods from many manufacturers. He provides varieties of choice enabling the consumers to select the commodities easily.
- A retailer attracts consumer’s attention to new goods and their arrival by personal salesmanship. He brings new products and new varieties to the knowledge of consumers.
- The retailer gives advice and guidance to the consumers regarding the purchase of goods. It is essential for him to establish a permanent and continuous relationship with consumers.

21.4.5 Advantages and Disadvantages of Middlemen

It is generally felt that a good amount of the final price is eaten away by the middlemen.

A. Advantages / Services rendered by middlemen

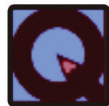
- There are many functions like assembling, warehousing, transporting etc are performed by the middlemen. They also take active part in the distribution of finished goods.
- The important functions of distribution and its risk burden are assumed by middlemen, and the producers have been freed.
- Because of the services of the middlemen, goods are brought to the places where they are needed.



- Specialization, which is the result of division of labour, is important in modern marketing, when there are specialized dealers.
- We can eliminate the middlemen, but we cannot eliminate their functions. It means someone has to perform the functions. The marketing functions cannot be eliminated.

B. Disadvantages of Middlemen

- The appearance of middlemen in marketing functions costs about 35% to 50% of the price paid by the consumer.
- There are large numbers of middlemen between the consumers and producers. Some of these middlemen do not perform any function but these people create hindrance in the free flow of goods towards the market.
- All types of risks arising out of depression and recession, strikes, scarcity are not shouldered by the middlemen.
- They enter into black marketing in times of scarcity and emergencies with a view to earn huge profits, by boosting the price.
- Communications have been developed extensively, and different modes of transporting systems are available regularly. Hence, middlemen can be eliminated.

**INTEXT QUESTIONS 21.4**

1. List the types of agent middlemen
2. Give the disadvantages of middlemen
3. Middlemen can be eliminated in _____ channel
 - a. Direct
 - b. Indirect
 - c. Two level
 - d. Three level

21.5 CHOOSING THE RIGHT DISTRIBUTION CHANNEL

Not all distribution channels work for all products, so it's important for companies to choose the right one. The channel should align with the firm's overall mission and strategic vision including sales goals.

The method of distribution should add value to the consumer. Do consumers want to speak to a salesperson? Will they want to handle the product before they make a purchase? Or do they want to purchase online with no hassles? Answering these questions can help



companies determine which channel they choose. Secondly, the company should consider how quickly it wants its product(s) to reach the buyer. Certain products are best served by a direct distribution channel such as meat or produce, while others may benefit from an indirect channel. The main factors which help in determining the choice of distribution channels include product, company, market and environment.

21.5.1 Product Related Factors

Following are the important product related considerations in deciding on channels of distribution:

- A. Product type:** In case of industrial goods like CT scan machines, short channels like zero level channel or first level channel should be preferred because they are usually technical, expensive, made to order and purchased by few buyers. Consumer goods like LCD, refrigerator can be distributed through long channels as they are less expensive, not technical and frequently purchased. The technical nature of the product requires services. Hence, sales and servicemen are needed to explain the use of the product to the customers. For products like computers, business machines etc., direct channels are more advantageous.
- B. Perishable and Non- Perishable Products:** Perishable products like fruits or vegetables are distributed through short channels while nonperishable products like soaps, oils, sugar, salt etc. require longer channels.
- C. Value of Product:** In case of products having low unit value such as groceries, long channels are preferred while those with high unit value such as diamond jewellery short channels are used. When the unit value of a product is high, a direct channel is effective. On the other hand, when the unit value is low, the direct channel is ineffective. If the product is of low value, larger and cheaper channels will be better. Short and costly channels may be used if the products are of high value.
- D. Product Complexity:** Short channels are preferred for technically complex goods like industrial or engineering products like machinery, generators like torches while non complex or simple ones can be distributed through long channels.

21.5.2 Company Characteristics

Following are the main Company Characteristics offering choice of channel of distribution:

- A. Financial Strength:** The companies having huge funds at their disposal go for direct distribution. Those without such funds go for indirect channels i.e., they depend on the intermediaries.



- B. Control:** Short channels are used, management wants greater control on the channel members otherwise a company can go in for longer channels. When a firm wants to exercise control over the price, the way in which customers are served etc., direct channel is suggested.
- C. Reputation:** It has been said that reputation travels faster than man. There are many companies, which have good reputation because of the product preference by the customers. Many intermediaries are eager to have connections with such companies.

21.5.3 Competitive Factors

A company has to decide whether to adopt the same channel as that of its competitor or choose another one. The middlemen are able to offer a good facility of storage. The channel which facilitates maximum sales must be preferred. The cost of each attractive channel may be estimated on the basis of unit sale. The best type of channel which gives a low unit cost of marketing may be considered. The characteristics of buyers as to their number, location, frequency of the purchase, quantities bought by them etc influence the channel selection. The channel adopted must facilitate the commodities produced to be available to the consumers in time

21.5.4 Market Factors

Following are the important market factors affecting choice of channel of distribution:

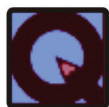
- A. Size of Market:** If the number of customers is small like in case of industrial goods, short channels are preferred, while if the number of customers are high as in case of convenience goods, long channels are suited. Long channels will have to be employed if the product is meant for the consumer market and industrial market. There is a need for a number of middlemen services if the number of potential customers is large. If the number of potential customers is small, direct selling is suggested.
- B. Geographical Concentration:** Generally, long channels are used if the consumers are widely spread while if they are concentrated in a small place, short channels can be used. Direct selling is effective if the customers are concentrated in a few places. If they are situated over the whole country, then a large number of middlemen will have to be employed.
- C. Quantity Purchased:** Long channels are used in case the size of order is small while in case of large orders, direct channels may be used. If the sales volume is large, direct selling is suitable. Industrial distributors sell industrial operating supplies.

**D. Customer buying habit:**

This affects the channel policies very much. When the buyer's habit and purchase pattern of consumers are frequent and small in size, then indirect selling is suitable.

21.5.5. Environmental Factor

Economic factors such as economic conditions and legal regulations also play a vital role in selecting channels of distribution. For example, in a depressed economy, generally shorter channels are selected for distribution.

**INTEXT QUESTIONS 21.5**

1. How to choose the right channel?
2. What are the major factors affecting the choice of channel?
3. Technical and expensive products should use _____ channel
 - a. Short
 - b. Long
 - c. Indirect
 - d. None

21.6 DESIGNING DISTRIBUTION CHANNEL

Designing an appropriate industrial distribution channel and managing it is a tough and continuing task. A well designed channel structure helps to achieve the desired marketing objectives. A channel structure consists of types and number of middlemen, terms and conditions of channel members, number of channels. The various steps that are involved in industrial distribution channel design in industrial markets are given in the figure.

21.6.1. Steps Involved in Industrial Channel Design Process

Let us understand each of the stages of industrial distribution channel design process in detail:

A. Analyzing the Needs of the Customer

When a marketer designs a marketing channel, he must understand the service output levels desired by the target customers. Different customers have different levels of service requirements. A high potential customer needs to be offered effective and professional service backup, ensuring availability of varied products compared to the low potential customer. The marketing channel designer has to know at this stage itself that providing superior service output means increased channel costs and higher prices for customers.

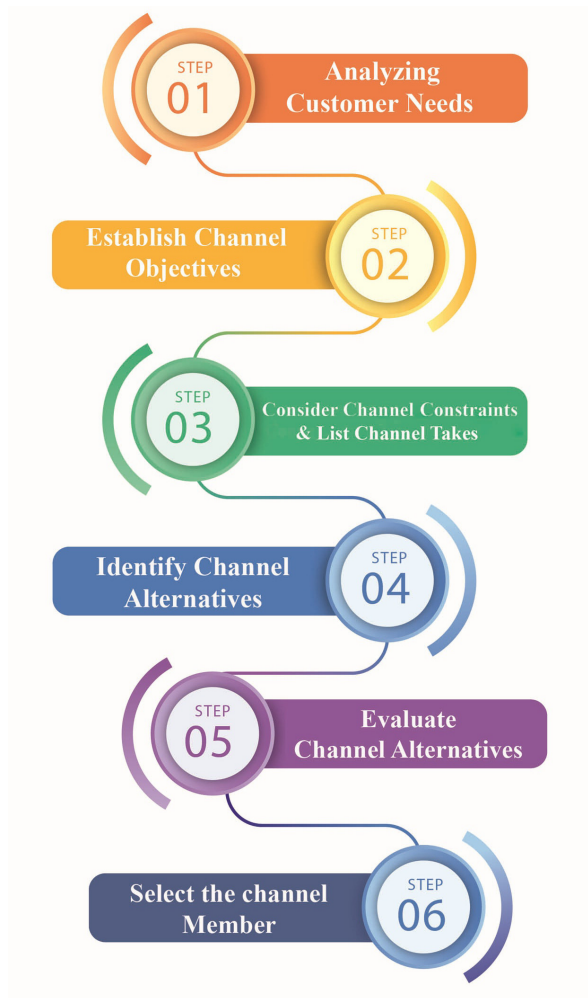


Fig. 21.3: Designing distribution channel

B. Establishing Channel Objectives

Channel objectives are a part of and result from the company’s marketing objectives that need to be stated in terms of targeted service output levels. Profit considerations and asset utilisation must be reflected in channel objectives and the resultant design. It should be the endeavour of the channel members to minimise the total channel costs and still provide the desired level of service outputs. Channel objectives keep varying depending on the characteristics of the products.

C. Considering Channel Constraints

The industrial marketer develops his channel objectives keeping into consideration various constraints like the company, competition, the environment, product characteristics and the level of service output desired by the target customers.

- **Company:** If a company has financial limitations as a constraint, then it may restrict its direct distribution approach through company sales force to few high potential customers.
- **Competition:** If a competitor has been very successful through direct service then it may force all other firms also to adopt the same strategy of direct selling.
- **Environment:** Economic conditions, legal regulations are the environmental factors that affect channel design. During recession, producers use economical ways to sell the products to avoid additional costs. Similarly, the law looks down upon those channel arrangements that try to build a monopoly market or minimize competition.
- **Product characteristics:** As already mentioned, complex and non-standard products require direct distribution without any intermediaries.
- **Customer:** The industrial marketers depend on intermediaries to offer services to customers who are either giving less business or are located at far-off places and prefer to serve the nearby or high potential customers by themselves.

D. Listing Channel Tasks

The industrial marketers have to creatively structure the necessary tasks or functions to meet customer requirements and company goals. They have to first make a list of various tasks to be performed, identify the critical tasks and make objective and realistic decisions on which tasks can be effectively performed by the company and which cannot be performed due to certain constraints.

E. Identifying Channel Alternatives

There are four issues that are involved in identifying the channel alternatives. They are:

- a. The types of business intermediaries:** There are different types of intermediaries that the industrial marketers should identify. They have to consider various factors like the tasks to be performed, product and market conditions before selecting either manufacturer's representatives or agents, industrial distributors, brokers, commission merchants or value-added resellers.
- b. Number of intermediaries:** The manufacturers have to settle on the number of intermediaries they wish to use in their channel structure. They may either go for intensive, selective or exclusive distribution.
- c. Number of channels:** Industrial marketers need to serve various market segments. This necessitates them to use more than one channel for distributing and marketing their products. This multi-channel approach helps them not only to increase their





market share but also reduce their costs. However, the industrial marketers need to take care of possible channel conflicts like proper demarcation of territory to channel members to sell and serve the customers in their respective areas.

- d. **Terms and responsibilities of Channel Members:** There are various terms and conditions which the industrial marketer must make clear to the participating channel members like the responsibilities and tasks, conditions of sale and territorial rights that would enable both of them to enhance their performance.
- **Responsibilities and tasks:** In order to avoid any future disagreements, there should be clarity in the roles of both the industrial marketers and the channel partners. Each should comply with the commitments about their individual responsibilities and tasks to be performed.
 - **Conditions of sale:** It should be clearly mentioned well in advance about the discounts offered by the manufacturers to the distributors, the commission to be paid to the agents or brokers. Other terms relating to warranty period, replacement of defective parts also should be appropriately stated.
 - **Territorial rights:** The territory between the distributors should be well demarcated so as to avoid any future confusion that may lead to legal issues.

F. Evaluating Alternate Channels

There are several channel alternatives available to the industrial markets. They have to determine the best among the alternatives by evaluating them based on the following criteria:

- a. **Economic Performance:** Different channel alternatives generate different levels of sales and incur different levels of costs. An industrial marketer has to pose a question whether sales generation would be more by direct selling through company sales force or through the channel members. The marketing manager has to similarly estimate the total costs of selling through different channel members.
- b. **Degree of control:** An industrial marketer exercises different levels of control over different channel members. The degree of control is more on company sales force and least on distributors.
- c. **Degree of adaptability of channel members:** With the market changing dynamically the channel members should have the capacity to adapt themselves to the changing environment. The industrial marketer must be able to control as well as modify the channel structure. Each channel member should be committed to the agreement they have with other members.

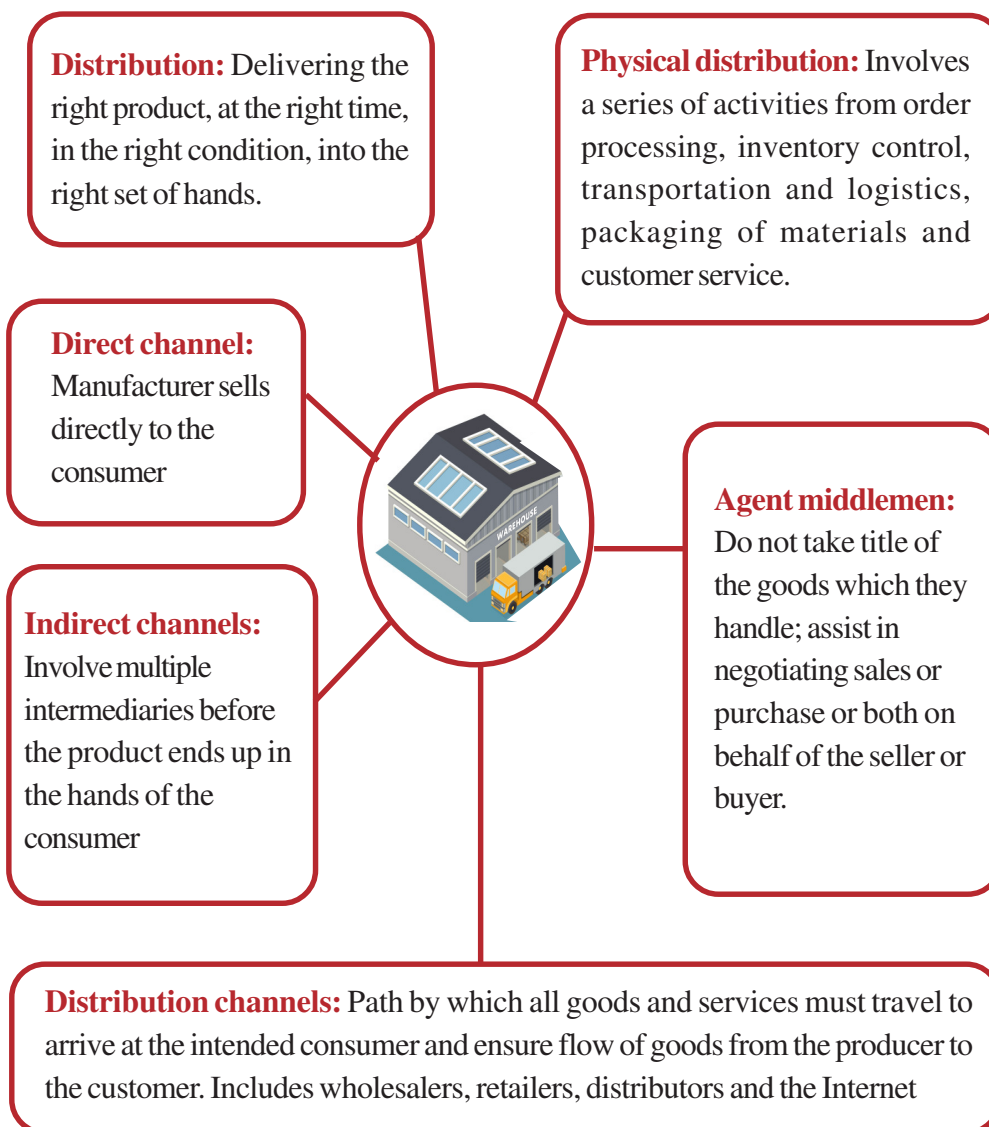


INTEXT QUESTIONS 21.6

1. What are the stages involved in designing the distribution channel?
2. _____ important factor while evaluating the channel alternatives
 - a. Degree of control
 - b. Economic performance
 - c. Adaptability
 - d. All these



WHAT YOU HAVE LEARNT



Notes

MODULE - 4

Warehouse Management



Notes

Channels of Distribution



KEY TERMS

Distribution Channel,	Agent Middlemen,	Merchant Middlemen,
Choice of channel	Designing channel,	Direct channel,
Indirect channel,	Functions,	Breaking Bulk



TERMINAL EXERCISE

1. Define channels of distribution
2. List the major functions of channels of distribution
3. What major types of distribution channels are used
4. Give the role of merchant middlemen
5. Give the advantages of wholesalers
6. Brief about the direct channel merits in the current scenario
7. Explain the two and three level channels with examples
8. List the product factors affecting the selection of distribution channel
9. Give the steps involved in designing the distribution channel
10. What major factors are considered for the identifying of channel alternatives
11. Brief about the importance and functions of distribution channels
12. Describe the various types of middlemen involved in the distribution channel
13. Discuss on the merits and demerits of each channel members in distribution
14. Design distribution channels for any four different kinds of products of your choice



ANSWERS TO INTEXT QUESTIONS

21.1

1. A channel of distribution or marketing channel is the structure of intra – company organization units and extra company agents and dealers, wholesalers and retailers through which a commodity, product or service is marketed
2. A distribution channel is the path by which all goods and services must travel to arrive at the intended consumer. Conversely, it also describes the pathway payments made from the end consumer to the original vendor. Distribution channels can be

short or long, and depend on the amount of intermediaries required to deliver a product or service.

3. (a)

21.2

1. Distribution channels provide a number of logistics or physical distribution functions that increase the efficiency of the flow of goods from producer to customer. The transportation and storage of goods is another type of physical distribution function. Some wholesalers and retailers assist the manufacturer by providing repair and maintenance service for products they handle. Channel members also perform a risk-taking function. Last, channel members perform a variety of communication and transaction functions

2. (a)

21.3

1. Direct and indirect are the two types of channels available for distribution.

2. Manufacturer – Agent – Wholesaler – Retailer – Consumer

3. (a)

21.4

1. Types of agents' middlemen

Broker, Commission Agent, Manufacturer's Agent, Selling Agents, Resident buyers and Auctioneers

2. All types of risks arising out of depression and recession, strikes, scarcity are not shouldered by the middlemen. They enter into black marketing in times of scarcity and emergencies with a view to earn huge profits, by boosting the price. Hence, middlemen can be eliminated.

3. (a)

21.5

1. Not all distribution channels work for all products, so it's important for companies to choose the right one. The channel should align with the firm's overall mission and strategic vision including sales goals.

2. The main factors which help in determining the choice of distribution channels include product, company, market and environment.

3. (a)





21.6

1. Stages in designing channel
 - Analysing the Needs of the Customer
 - Establishing Channel Objectives
 - Considering Channel Constraints
 - Listing Channel Tasks
 - Identifying Channel Alternatives
 - Evaluating Alternate Channels

2. (d)



DO AND LEARN

The choice of channel for different products differs and considering the other factors like objectives, company, competitors, market, environment that affect the channel selection, divide the class into four groups and each group could assume a product category like durable, perishable, technical and cost and do the exercise of channel selection.



ROLE PLAY

Shiva and Tharun are the marketers of textiles and processed foods; and both are discussing the channel designing for their products with minimum involvement of middlemen so that their profit is not compromised and consumers also benefited. Both converse as below and any two groups can discuss points to follow their conversation and end up in a suitable channel design.

Shiva: Hi, Tharun, how are you

Tharun: Fine Shiva, doing well and hope better for you also. I thought of talking to you regarding the marketing channels to be designed for my products. Could you please give me points?

Shiva: Fine, I am glad to do so.....