LESSON-18
CHANNELS OF DISTRIBUTION

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STRUCTURE

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18.0 INTRODUCTION

Distribution of products constitutes an important element of marketing mix of a firm. After development of the product, the entrepreneur 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 entrepreneur may choose to distribute the product directly to customers without using any intermediaries. Alternatively, he may use one or more middlemen including wholesalers, selling agents, and retailers.

Big firms have their zonal or regional authorized agents or dealers spread over the entire country. The dealers, in turn, work with distributors and retailers. On the other hand, small firms cannot afford to have zonal offices, but are devising their own ways of doing business. They also receive regular orders for goods. Entry may be difficult for the small firms.

It has been observed that many authorized dealers of known brands also stock other unknown or new brands of goods. They also insist on the customer buying the lesser-known brand because of higher margin of profit. The small entrepreneur, with fewer overheads and low labour costs along with better planning and management, may be able to earn good profits.

18.1 OBJECTIVES

After reading this chapter, you should be able to:

- Explain the meaning of channels of distribution.
- Describe various kinds of distribution channels.
- Enumerate the factors affecting choice of a distribution channel.
- Describe various types of middlemen.
18.2 MEANING OF CHANNELS OF DISTRIBUTION

A channel of distribution or trade channel is the path or route along which goods move from producers to ultimate consumers. It is a distribution network through which a producer puts his products in the hands of actual users. A trade or marketing channel consists of the producer, consumers or users and the various middlemen who intervene between the two. The channel serves as a connecting link between the producer and consumers. By bridging the gap between the point of production and the point of consumption, a channel creates time, place and possession utilities. A channel of distribution represents three types of flows:

a. Goods flow from producer to consumers;
b. Cash flow from consumers to producer as payment for goods; and
c. Marketing information flows in both directions, from producers to consumers in the form of information on new products, new uses of existing products, etc. The flow of information from consumers to producers is the feedback of the wants, suggestions, complaints, etc.

18.3 KINDS OF DISTRIBUTION CHANNELS

Every small-scale entrepreneur requires a channel that can distribute his product to the right customers at the right time and at the right cost. It consists of all the middlemen which participate in the distribution of goods and which serve as a link between the manufacturer and the consumer.

Channels of Distribution

A brief explanation of different channels of distribution is given below:

1. **Manufacturer → Customer**: This is also known as direct selling because no middlemen are involved. A producer may sell directly through his own retail stores, for example, Bata. This is the simplest and the shortest channel. It is fast and economical. Small producers and producers of perishable commodities also sell directly to the local consumers. Big firms adopt direct selling in order to cut distribution cost and because
they have sufficient facilities to sell directly to the consumers. The producer or the entrepreneur himself performs all the marketing activities.

2. Manufacturer → Retailer → Customer: This is one stage distribution channel having one middleman, i.e., retailer. In this channel, the producer sells to big retailers like departmental stores and chain stores who in turn sell to customer. This channel is very popular in the distribution of consumer durables such as refrigerators, TV sets, washing machines, typewriters, etc. This channel of distribution is very popular these days because of emergence of departmental stores, supermarkets and other big retail stores. The retailers purchase in large quantities from the producer and perform certain marketing activities in order to sell the product to the ultimate consumers.

3. Manufacturer → Wholesaler → Retailer → Customer: This is the traditional channel of distribution. There are two middlemen in this channel of distribution, namely, wholesaler and retailer. This channel is most suitable for the products with widely scattered market. It is used in the distribution of consumer products like groceries, drugs, cosmetics, etc. It is quite suitable for small scale producers whose product line is narrow and who require the expert services and promotional support of wholesalers.

18.4 CHOICE OF CHANNEL OF DISTRIBUTION

While selecting a distribution channel, the entrepreneur should compare the costs, sales volume and profits expected from alternative channels of distribution. In order to select the right channel for distributing his product, a small-scale manufacturer should keep in mind the following considerations:

1. Market Considerations: The nature of the market is a key factor influencing the choice of channels of distribution. The following features of the market should be considered to determine the channels:
   a. Consumer or industrial market: If the product is meant for industrial users, the channel of distribution will be a short one. This is because industrial users buy in a large quantity and the producer can easily establish a direct contact with them. But in case for goods meant for consumers, retailers may have to be included in the channels of distribution.
   b. Number and location of buyers: When the number of potential customers is small or the market is geographically located in a limited area, direct selling is easy and economical. In case of large number of customers, use of wholesalers and retailers becomes necessary.
   c. Size of order: Direct selling is convenient and economical where customers place order in big lots as in case of industrial goods. But where the product is sold in small quantities, middlemen are used to distribute such products. A manufacturer may use different channels for different types of buyers. He may sell directly to big retail stores and may use wholesalers to sell to small retailers.
   d. Customers buying habits: The customer buying habits like the time he is willing to spend, the desire for credit, the preference of personal attention and one stop shopping significantly affect the choice of distribution channels.

1 Singh and Chhabra, C.B.Gupta
2. Product Considerations: The type and nature of the product influence the number and type of middlemen to be chosen for distributing the product. The important factors with respect to the product are as follows:

a. **Unit value**: Products of low unit value and common use are generally sold through middlemen, as they cannot bear the cost of direct selling. On the other hand, expensive consumer goods and industrial products are sold directly by the producers.

b. **Perishability**: Perishable products like vegetables, fruits and bakery items have relatively short channels, as they cannot withstand repeated handling. Goods, which are subject to frequent changes in fashion and style, are generally distributed through short channels, as the producer has to maintain close and continuous touch with the market.

c. **Bulk and weight**: Heavy and bulky products are distributed directly to minimize handling costs. Coal, bricks, stones, etc., are some examples.

d. **Standardisation**: Custom-made and non-standardised products usually pass through short channels due to the need for direct contact between the producer and the consumers. Standardized and mass-made goods can be distributed through middlemen.

e. **Technical nature**: Industrial products requiring demonstration, installation and aftersale service are often sold directly. The consumer products of technical nature are generally sold through retailers.

f. **Product line**: An entrepreneur producing a wide range of products may find it economical to set up its own retail outlets. On the other hand, firms with one or two products find it profitable to distribute through wholesalers and retailers.

g. **Age of the product**: A new product needs greater promotional effort and few middlemen may like to handle it. As the product gains acceptance in the market, more middlemen may be employed for its distribution.

3. Middlemen Considerations: The cost and efficiency of distribution depend largely upon the nature and type of middlemen as given in the following factors:

a. **Availability**: When middlemen as desired are not available, an entrepreneur may have to establish his own distribution network. Non-availability of middlemen may arise when they are handling competitive products, as they do not like to handle more brands.

b. **Attitudes**: Middlemen who do not like a firm’s marketing policies may refuse to handle its products. For instance, some wholesalers and retailers demand sole selling rights or a guarantee against fall in prices.

c. **Services**: Use of those middlemen is profitable who provide financing, storage, promotion and aftersale services.

d. **Sale Potential**: An entrepreneur generally prefers a dealer who offers the greatest potential volume of sales.

e. **Costs**: Choice of a channel should be made after comparing the costs of distribution through alternative channels.

After deciding the number of middlemen, an entrepreneur has to select the particular dealers through whom he will distribute his products. While selecting a particular wholesaler or retailer, the following factors should be taken into consideration:

a. Location of dealer’s business premises;

b. Financial position and credit standing of the dealer;

c. Knowledge and experience of the dealer;

d. Storage and showroom facilities of the dealer;
e. Ability of the dealer to secure adequate business and to cover the market;
f. Capacity of the dealer to provide after-sale service;
g. General reputation of the dealer and his sales force;
h. Willingness of the dealer to handle the entrepreneur’s products;
i. Degree of co-operation and promotion service he is willing to provide;
j. Nature of other products, if any handled by the dealer.

Activity

Please suggest a suitable channel of distribution for Mr. Amit Sood’s firm.

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18.5 SUMMARY

In a vast and densely populated country like India one needs an effective distribution system that provides market coverage and is economical. The choice of a channel depends upon the nature of the product e.g. for low priced consumer products like soap a vast network is needed but for industrial goods a direct channel or a very short channel might be appropriate. The nature of the product- whether it is bulky or perishable for instance as well as the cost and efficiency of the distributors are some other factors that have to be kept in mind while selecting a channel.

18.6 GLOSSARY

1. Wholesaling: All activities involved in selling goods or services to those buying for resale or business use.
2. Retailing: All activities involved in selling goods or services directly to final consumer.
3. Zero Stage Channel: When goods are supplied directly by producer to consumer without any intermediaries.
4. Specialty Store: A retail store that carries a narrow production line with a deep assortment within that line.
18.7 SELF ASSESSMENT QUESTIONS

1. What do you mean by channels of distribution?
2. Discuss the different channels available to an entrepreneur for the distribution of products to the consumers.
3. What factors will you take into account while selecting a suitable channel of distribution?

18.8 FURTHER READINGS