Unit 4

Distribution Channels and Physical Distribution Decisions

Meaning

- Channel of distribution is the path through which products move from the place of production to the place of ultimate consumption. It is the connecting link between the producer and the consumer to sell the products.
- It creates the utilities of time, place and possession by bridging the gap between the point of production and the point of consumption.

Definition

- According to W.J. Stanton, "Channel of distribution or trade channel for a product is the route taken by the title of the goods as they move from the producer to the ultimate consumers or industrial user."

Characteristics

- **Place Utility** – As they help in moving the goods from one place to another;
- **Time Utility** – As they bring goods to the consumers when needed;
- **Convenience Value** – As they bring goods to the consumers in convenient shape, unit, size, style and package;
- **Possession Value** – As they make it possible for the consumers to obtain goods with ownership title;

- **Marketing Tools** – They serve as vehicles for viewing the marketing organization in its external aspects and for bridging the physical and non-physical gaps which exist in moving goods from the producers to the consumers
- **Supply-Demand Linkage** – As they bridge the gap between the producers and consumers by resolving spatial (geographical distance) and temporal (relating to time) discrepancies in supply and demand

Functions

- **Sorting:** The middlemen collect goods from various sources. These goods are different in quality, size, nature, colour etc. The intermediaries sort these goods into homogeneous groups on the basis of the size , quality, nature etc.
- **Accumulation:** This function involves accumulation of goods into larger homogeneous stocks, which maintain continuous flow of supply

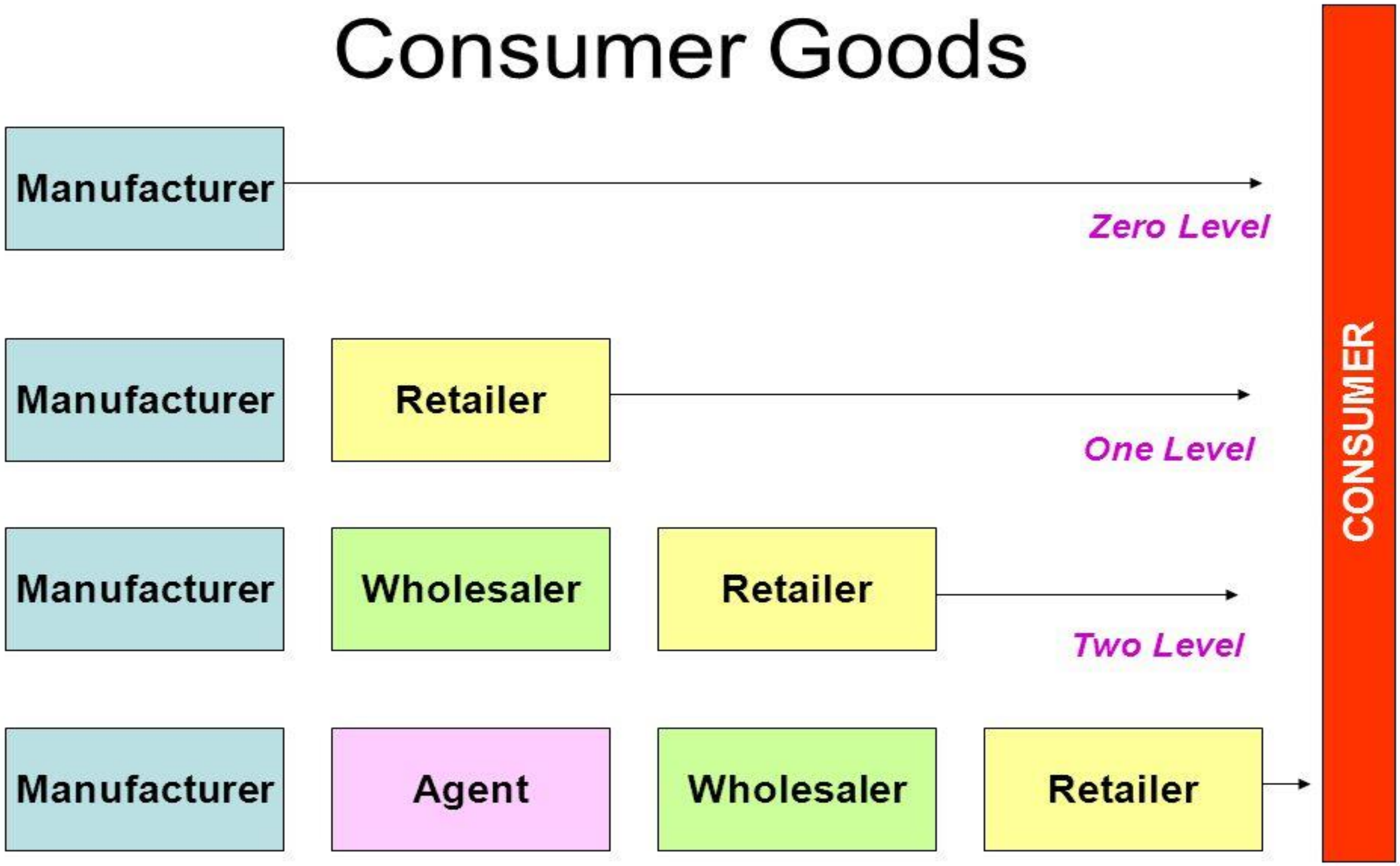
- **Allocation:** Allocation involves breaking homogeneous stock into smaller marketable lots.
- **Assorting:** Middlemen procure variety of goods from different sources and deliver them in desired by the customers. A retailer collects a variety of consumer goods And delivers them to households.
- **Product promotion:** The middlemen advertise the product kept with them. They also do certain sales promotion activities like demonstrations; special displays etc. to increase the sale of products.

- **Negotiation:** They negotiate and try to reach agreement on price and other terms of sale.
- **Risk taking:** They bears the risk of changes in demand, damage in transit, theft, spoilage, destruction etc.

Types of Channels

- A distribution channel connects the producer and the consumer. Several intermediaries function in between them. The number of intermediaries determines the length of a channel. It is also called channel levels or type of channels.

Channels of Distribution - Levels Consumer Goods



Direct Channel /Zero Level/Direct Marketing

- Direct channel of distribution means making goods available to consumers directly by the manufacturer, without involving any intermediary.
- Eg: Mail order selling, Internet selling, Selling through own sales force/ own retail outlets (eg.Bata, McDonald, etc.)

Indirect Channels

- Indirect channels of distribution mean making goods available to the consumers by employing one or more intermediaries. Following are the different types of channels under indirect channels
- 1.One level
- 2.Two level channels
- 3.Three level channels

- ONE LEVEL In this type, the intermediary is the retailer firm directly supplies the product to retailer who sells the product directly to customers. Eg: Maruti Udyog sells its cars through company approved retailers.
- TWO LEVEL CHANNELS Under this channel, the manufacturer sells to one or more retailers who in turn sell to the ultimate consumers. This is the most commonly adopted distribution network for most consumer goods like soaps,Oil,clothes,rice,sugar etc

- THREE LEVEL CHANNELS
- This is the longest Channel of distribution. In this path, one more middlemen is added . So there are three intermediaries' involved agents, wholesalers and retailers.
- Manufacturers use their own selling agents or brokers who connect them with wholesalers and then the retailers.

Distribution Channel Intermediaries

- Intermediaries in a distribution channel provide services that enable manufacturers to reach different types of customers.
- A channel might include a number of intermediaries, such as agents, wholesalers, distributors and retailers.
- Intermediaries act as middlemen between different members of the distribution chain, buying from one party and selling to another. They also may hold stock and carry out logistical and marketing functions on behalf of manufacturers.

Direct and Indirect Channels

- Manufacturers sell products and services to their customers through direct and indirect channels. Where manufacturers sell direct to customers through their own sales force or website, they do not require intermediaries.
- If they wish to sell to customers and prospects their sales teams cannot reach, they appoint intermediaries to act on their behalf.
- Intermediaries may have additional resources and relationships to supplement to a manufacturer's own sales and marketing resources, enabling it to reach a wider customer base.

Selling Through Agents

- Agents act as independent representatives for manufacturers, selling to other intermediaries such as wholesalers or retailers.
- These agents can be individuals or companies. Agents earn commission or fees for the sales they make or the services they provide.
- They form a valuable extension to a manufacturer's internal sales resources

Channel Management Decisions

The 4-step model

Selecting Channel Members

- Service reputation
- Number of years in business
- Other lines carried
- Growth and profit record

Training and Motivating

- Capability-building programs
- Taking care of intermediaries' needs
- Constant communication
- Profitability

Evaluating channel members

- Evaluate performance
- Treatment of lost and damaged goods
- Sales quota attainment
- Counsel, motivate, or terminate the underperformers

Retailing and Wholesaling


Retailing
Shopping
Sometimes
streets
may
mail
products
quantities
recreational
services
often
commerce
goods
retailer
individuals
done
large
shops
buying
overall
process
utility
buys
order
delivery
consists
wholesaler
importers
term
end-user
non-shop
result
part
street
include
manufacturers
electric
precipitation
smaller
end
lots
full
location
boutique
purchaser
partial
obtain
called
also
subordinated
applied
chain
type
business-to-consumer
Manufacturing
roof
department
distribution
directly
Retail
merchandise
activity marketers
like
B2C
Online
sells
sale
Retailers
browsing
forms
supply
Purchasers
necessary
needs
protect
kiosk
businesses
electronic
direct
just
fixed
public
window
store
number
refers
power
service
always
clothing
purchase
looking
food
establishments
generally
pedestrians
strategy
necessities
see

What is retailing?

- Retailing can be defined as the buying and selling of goods and services. It can also be defined as the timely delivery of goods and services demanded by consumers at prices that are competitive and affordable.
- The term 'retail' is derived from the French word retailer which means 'to cut a piece off or to break bulk'. In simple terms, it implies a first-hand transaction with the customer.

Functions of retailer

- 1.Buying
- 2. Storage
- 3. Selling
- 4. Grading and packing
- 5. Risk-bearing
- 6. Transportation
- 7. Financing
- 8. Sales promotion
- 9. Information

Types of retail formats

- Department stores
- Discount stores
- Speciality Stores
- Supermarket
- Kirana stores

Department stores

- Department store offer a product range that is both wide and deep.
- These kind of store has several product lines

Discount stores

- These are high volume stores with line price
- Big stores like Walmart are example of discount store

Speciality Store

- Speciality store has narrow product line
- These kind of stores concentrate on one type of merchandise and offer in a manner that makes it special

Supermarket

- These are large, low-cost, low-margin, high-volume, self-service stores
- These are designed to meet total needs for household products
- Big Bazaar, Reliance Fresh are some of the examples of supermarket

Kirana Stores

- These are traditional independent convenience stores
- These are spread across the country and it forms bulk of the unorganised sector
- Each of the Kirana store cater to mostly local population

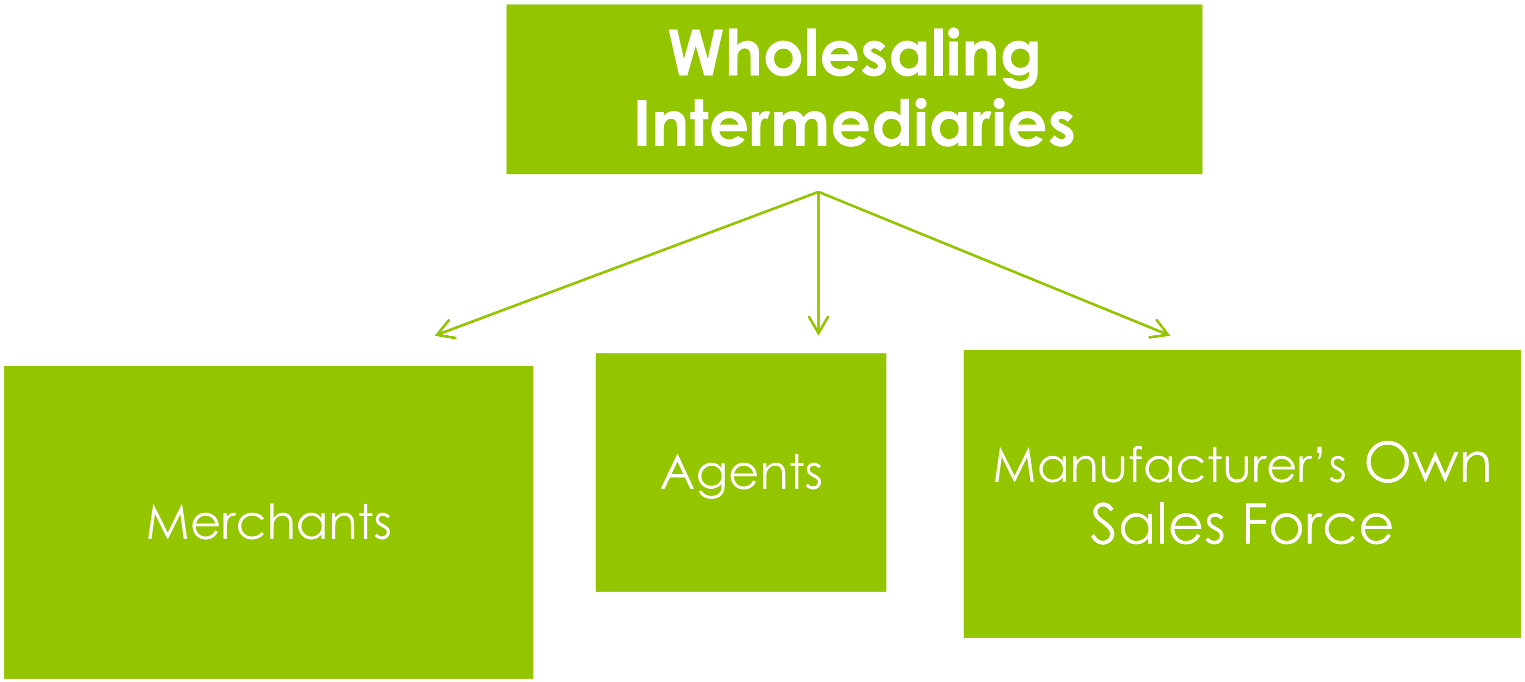
WHOLESALING

What is wholesaling?

- Wholesaling is a distribution channel function where one organization buys products from supplying firms with the primary intention of redistributing to other organizations (but, in general, not to the final consumer).

Functions of wholesaling

- 1. Buying
- 2. Storage & Carrying inventory
- 3. Selling
- 4. Transportation
- 5. Financing
- 6. Promoting
- 7. Negotiating
- 8. Market Research
- 9. Networking


Wholesaling Intermediaries
Merchants
Agents
Manufacturer's Own Sales Force

Wholesaling Intermediaries

Merchants

1.Full Function Wholesalers
2.Limited Service Wholesalers

Wholesaling Intermediaries

Agents

1. Making the buying and selling parties meet.
2. Help in striking the deal
3. Pocket their fees

Wholesaling Intermediaries

Manufacturer's Own Sales Force

1. Owned & operated by Manufacturers
2. Carry little inventory
3. Take orders for merchandise