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Channels of Distribution

23.1 Introduction

As you know, the primary objective of all business enterprises is to earn profit by selling goods and services to ultimate consumers or users. In order to bring goods from the place of manufacture to the place of consumers, the goods have to follow a path or route which is known as channel of distribution or trade channel. A trade or marketing channel consists of producer, middlemen, and consumers or users. The channel serves as a link between the producer and consumers. In the present lesson we shall discuss the various aspects of channels of distribution.

23.2 Objectives

After studying this lesson you will be able to :

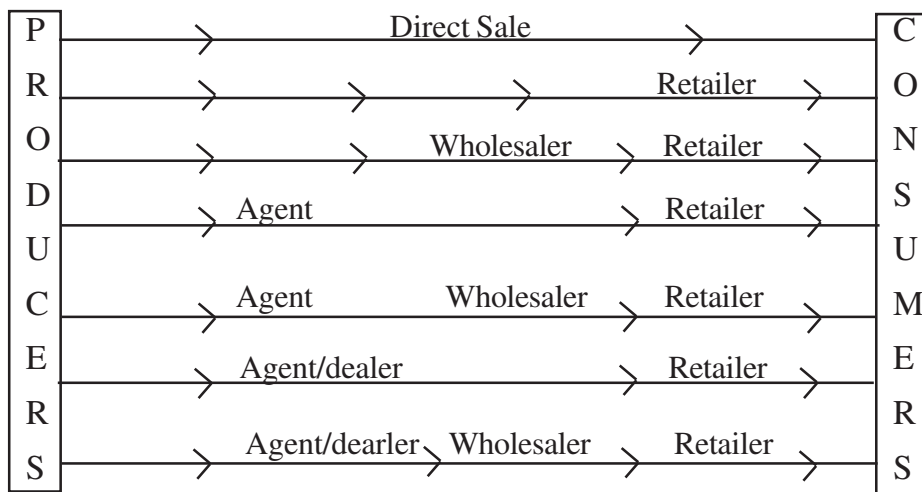
- recall the meaning of channels of distribution;
 - identify the various channels of distribution with the help of a chart;
 - describe the role of middlemen in the distribution of goods;
 - state the desirability of eliminating the middlemen;
 - enumerate the role of wholesaler and retailer in distribution of goods;
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- explain the role of specialised retail outlets e.g., departmental stores, multiple shops, mail order business, etc.;
- prepare a list of factors to be considered before choosing a suitable channel of distribution.

23.3 Channel of distribution - Meaning

A channel of distribution or trade channel is the path or route along which goods move from producers to ultimate consumers or industrial users. In other words, it is the distribution network through which a producer puts his product in the hands of actual users. The channel of distribution includes the original producer, the final buyer and any middlemen-either wholesaler or retailer. The term middleman refers to any institution or individual in the channel which either acquires title to the goods or negotiates or sells in the capacity of an agent or broker. But facilitating agencies who perform or assist in marketing function are not included as middlemen in the channel of distribution. This is because they neither acquire title to the goods nor negotiate purchase or sale. Such facilitating agencies include banks, railways, roadways, warehouses, insurance companies, advertising agencies, etc.

The following diagram (chart) is illustrative of the channel of distribution which may exist in a market.



The above chart indicates that the number of middlemen may vary. If there is direct sale by the produce to the consumers then there is no

middleman. But that is very rare. As the chart shows the producer may sell goods to retailer who may then sell the same to consumers. The producer may sell goods to wholesalers who may in turn sell to retailers and the retailer may sell to consumers. The fourth alternative channel of distribution is when any agent/dealer intervenes between the producer and retailers and acts as a middleman. The agent is appointed by the producer for the sale of goods to the retailers. Another alternative channel is there when producer's agent sells goods to wholesalers who sell to retailers. Agent/dealer is an independent person/firm buying goods and selling them to retailers. Agent/dealer may also sell to wholesalers who may then sell to retailers and goods are thus made available to consumers. In the channel of distribution there may be more than one agent/dealer and wholesaler.

23.4 Role of middlemen in the distribution of goods

The middlemen perform the following marketing functions which are listed in sequence.

- I. Searching out buyers and sellers (contacting & Merchandising), matching goods to the requirements of market.
 - II Offering goods in the form of assortments or packages.
 - III Persuading and influencing the prospective buyers to favour a certain product and its maker (personal selling/sales promotion).
 - IV Implementing pricing policies in such a manner that would be acceptable to buyers and ensure effective distribution.
 - V. Providing feed back information, marketing intelligence and sales forecasting services for the regions to their suppliers.
 - VI Looking after the process of distribution where necessary.
 - VII Participating actively in the creation and establishment of a market for a new product.
 - VIII Offering pre and after sale services to consumers.
 - IX Communicating the use of technique of the product to the users.
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- X Offering credit to retailers and consumers.
- XI Risk bearing with reference to stock hoarding/transport.

23.5 Desirability of eliminating the middlemen

You have already learnt the role of middlemen above, which indicates the significance of middlemen in the channel of distribution. Indeed without the existence of middlemen goods produced on a mass scale could not have reached the consumers at right time and place. However the existence of middlemen may lead to several short comings. The elimination of middlemen is based on the following grounds.

- I. **Excessive number** : Often there are too many middlemen between the manufacturers and consumers. As every middleman charges some commission or profit, the ultimate consumer has to pay a very high price for goods. They are social parasites thriving at the cost of the consumer and their ultimate elimination will reduce prices and burden on consumers.
 - II. **Superfluous** : Most middlemen do not render any useful service in lieu of profit or commission. They act as only transfer agents and unnecessarily cause delay in the flow of goods. Their elimination will result in quick and smooth flow of goods.
 - III. **Limited risk taking** : Middlemen do not bear the producers' risk such as loss due to strikes, lockouts, depression and change in fashions and habits, etc.
 - IV. **Anti-social activities** : They take undue advantage of adverse conditions in business. Some businessmen (middlemen) indulge in anti-social activities like hoarding and adulteration to earn huge amount to profits.
 - V. **Limiting consumers' choice** : The middlemen often promote products which are inferior in quality and get high margin of profit. Thus they exploit consumers and limit their choice.
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Intext Question 23.1

Fill in the blank

- (i) A channel of distribution is the _____ along which goods move from producers to consumers.
 - (ii) Banks are _____ included in the channel of distribution.
 - (iii) Retailer acts as a _____ between the wholesaler and consumers.
 - (iv) Role of the middlemen is to _____ out buyers and sellers and match goods to the requirements of market.
 - (v) Some businessmen (middlemen) indulge in _____ social activities.
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23.6 Role of wholesaler and retailer in distribution of goods

Role of Wholesaler :

Wholesaler acts as a middlemen in the channel of distribution as he buys goods in large quantity from the manufacturer and sells these to retailers in small quantities. His role in distribution of goods is discussed below:

- I. **Buying and assembling** : A wholesaler forecasts the demand for goods and assembles different varieties of goods from several manufacturers. Some wholesalers also import goods from foreign countries.
 - II. **Selling and dispersing** : A wholesaler breaks the bulk so that retailers and users can buy them in small lots. His representatives regularly call on retailers and industrial users/buyers to distribute the goods among widely scattered people.
 - III. **Transportation** : A wholesaler arranges transportation of goods from producers to his godowns and from there to retailers.
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Sometimes he has his own transport arrangement for this purpose.

- IV **Storage** : He holds large stocks and serves as a reservoir and supplies to retailers. He helps in stabilising prices by adjusting supply of goods to their demand.
- V. **Packing and grading** : A wholesaler packs and repacks goods in convenient lots. He sorts out goods in different grades. He also gives brand names to the products packed and graded by him.
- VI. **Advertising and sales promotion** : A wholesaler performs advertising and sales promotion activities to increase the sale of products. He also takes the services of experts for this purpose.
- VII. **Financing** : Sometimes the wholesaler buys goods on cash basis from manufacturers and sells them on credit to retailers. In this way he provides financial help both to the producers and retailers. If necessary, the wholesaler also provide financial help by way of advance payment to producers.
- VIII **Risk-taking** : A wholesaler bears risks of changes in demand and prices, bad debts and damage to goods in the course of transportation and storage. By undertaking various risks he simplifies the process of distribution.

Role of Retailers :

Retailers buys goods from wholesaler and sells them directly to consumers. Thus he acts as a direct link between the wholesaler and consumers. His role in distribution of goods is enumerated below:

- I. **Wide choice to consumers** : The retailer anticipates needs of consumers. He assembles goods from different sources and stocks different varieties of products. Thus, he offers a wide choice to consumers. They can buy according to their purchasing power and requirements.
 - II. **Availability of goods in small quantities and at convenient locations**: A retailer provides ready supply of goods so that consumers can buy conveniently and quickly in small lots without
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any inconvenience of placing advance orders and waiting for supplies. By ensuring uninterrupted and fresh supply of goods, he saves consumers from the botheration of buying goods in bulk and storing them.

- III. **Home delivery** : A retailer transports goods from wholesalers to ultimate consumers. Some retailers provide free home delivery service to their consumers. Thus they create place utility.
- IV. **Assurance of regular supply** : He maintains adequate supply of goods so that consumers are sure of getting regular supply at the time of their need.
- V. **Credit facility** : Although retailers mostly sell goods for cash, they also supply goods on credit to their regular customers.
- VI. **Close interaction with customers** : A retailer brings new products to the notice of customers and educates them in their uses. A retailer thus, acts as a friend and guide to his customers. Indeed his interaction with customers is of intimate personal nature and thus he is able to provide feed back to wholesalers and manufacturers about consumers' preferences.

Intext Question 23.2

Fill in the blanks

- i. A wholesaler forecasts the _____ for the goods.
 - ii. A wholesaler gives _____ name to the products packed and graded by him.
 - iii. A wholesaler provides financial help to manufacturers by purchasing goods for _____.
 - iv. Some retailers provide _____ home delivery service to their consumers/customers.
 - v. Retailer provides feed back to wholesalers and _____ about consumers' preferences.
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23.7 Role of specialised retail outlets e.g., departmental stores, multiple shops and mail order business house

A retailer is the final link in the distribution channel between a manufacturer and the consumers. He is directly and continuously in touch with people of varied tastes and preferences. Retailers may be divided into two categories, namely institutional and non-institutional. The institutional retailers (retail outlets) include departmental stores, multiple shops and mail order houses. Non-institutional retailers include the floating population of street sellers, pedlars, and hawkers.

- (a) **Departmental Stores** : A departmental Store is a big retail store with many departments under one roof. It offers a wide range of products so as to suit different consumer tastes and preferences. All the departments are centrally controlled but each department forms a complete sales unit in itself. The examples of such stores in metropolitan cities are Akbarally's and Sahakari Bhandar in Bombay and Spencers in Madras.
- (b) **Multiple shops or chain stores** : Manufacturers often use their own retail shops for direct sale of their products to consumers. These retail shops are established as multiple shops operating in the same city or different parts of the country. These shops have identical product display. Bata India Ltd and DCM provide typical examples of multiple shops system. In this type of retail selling manufacturers have control over distribution channel and have first hand information regarding customers' preferences.
- (c) **Mail-order business** : These are retail outlets which sell goods by mail only. The mail order house centrally procures products, advertises them and expect perspective buyers to send offers/orders. The products are sent through value-payable post. Mail Order Sales Ltd, Bombay, the seller of 'Bull worker' health aid, is a typical example of such mail order business in India.

It is through these retail outlets that manufacturers often by pass the wholesalers in trade route or path. You have already learnt in detail about departmental stores, multiple shops and mail-order business in lesson No.8 on 'Internal Trade'.

23.8 Choice of a channel of distribution

The factors to be considered before choosing a suitable channel of distribution are listed below:

1. **Product considerations** : The nature and type of product have an important bearing on the choice of distribution channels. For examples, perishable goods need speedy movements and hence shorter channel or route of distribution; For durable goods, longer and diversified channels may be used; Similarly, for technical products requiring specialised selling and serving talents, the shortest channel should be used.
 2. **Market considerations** : The nature and type of customers and size of market are important considerations in the choice of a channel of distribution. For example, if the market size is large, there may be long channels, whereas in a small market direct selling may be profitable. The nature and type of consumers include factors such as desire for credit, preference for the stop shopping, demand for personal services, amount of time and effort the customer is willing to spend. It also includes factors like age, income group, sex, and religion of customers.
 3. **Company considerations** : The nature, size and objectives of the business firm also play an important role in the selection of distribution channel. It includes financial resources, market standing, volume of production, desire for control of channel, services provided by manufacturers', etc. For example a company with substantial financial resources need not rely too much on the middlemen and can afford to reduce the levels of distribution. Similarly a company desiring to exercise greater control over channel will prefer a shorter channel.
 4. **Middlemen considerations** : The cost and efficiency of distribution depend largely on the nature and type of middlemen. It includes characteristics of middlemen such as availability, attitudes, services, sales potential, costs etc. For example, if the terms and conditions of engaging wholesalers are unfavourable, a manufacturer may like to channelise his products through semi-
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wholesalers or retailers, thereby, bypassing wholesalers. However, the determining factor would be the differential advantage involved in the choice.

To conclude, the channel generating the largest sales volume at lower unit cost will be given top priority. This will minimise distribution cost.

Intext Question 23.3

State which of the following statements are 'True' and which are 'False'.

- (i) Mail order business house is known as institutional retailer.
 - (ii) Pedlars are known as institutional retailers.
 - (iii) Perishable goods require short channel of distribution
 - (iv) If the market size is large business firm must have many channels of distribution.
 - (v) A business house desiring to exercise greater control over channel will not prefer a shorter channel of distribution.
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23.9 What you have learnt

Meaning of Channel of distribution : It is the path or route along which goods move from producers to ultimate consumers or users. There are various middlemen in the channel of distribution such as Agent, Wholesalers and Retailers.

Role of middlemen : Middlemen performs various marketing functions which are stated as below:

- i) Searching out buyers and sellers
 - ii) Implementing pricing policies
 - iii) Providing feed back information
 - iv) Creating and establishing a market for new product
 - v) Providing pre-and after-sale services to consumers
 - vi) Communicating the use of technique of the product
 - vii) Providing credit facility to retailers and consumers.
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Desirability of eliminating the middlemen: The elimination of middlemen is based on the following grounds.

I) Excessive number II) Superfluous III) Limited risk taking IV) Anti social activities V) Limiting consumers' choice

Role of wholesaler in distribution of goods : Role of wholesaler in distribution of goods is given as below :

I) Buying and assembling II) Selling and dispersing III) Transportation IV) Storage V) Packing and grading VI) Advertising and Promoting sale VII) Financing VIII) Risk.

Role of Retailer in distribution of goods : Role of retailers in distribution of goods is enumerated as below:

I) Wide choice to consumer II) Availability of goods in small quantities and at convenient places III) Home delivery IV) Assurance of regular supply V) Credit facility to customers VI) Close interaction with customers.

Role of specialised retail outlets e.g. departmental stores, multiple shops and, mail order business house. These retail outlets also act as a retailer between the manufacturer and consumers. It is through these retail outlets that manufacturers often bypass the wholesalers in trade route or path.

Choice of a channel of distribution : The choice of a channel of distribution depends on the various factors which are listed below :

- I) Product considerations II) Market consideration
- III) Company considerations IV) Middlemen considerations.

23.10 Terminal Exercise

1. Explain the role of middlemen in the distribution of goods.
 2. Define wholesaler. Explain the role of wholesaler in distribution of goods.
 3. Define retailer. Explain the role of retailers in distribution of goods.
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4. Explain the factors governing the selection of a suitable channel of distribution.
5. Explain the desirability of eliminating the middlemen.

Short Questions

1. Define channels of distribution.
2. Name any three institutional retail outlets.
3. Briefly explain the role of multiple shops as a specialised retail outlet.
4. Name any three middlemen between the manufacturer and consumers.
5. Name any two anti-social activities of businessmen (middlemen) in distribution of goods.

23.11 Answers to Short Questions

- 23.1 (i) path/route (ii) Not (iii) Middlemen/link
(iv) search/find (v) Anti
- 23.2 (i) Demand (ii) Brand (iii) Cash
(iv) Free (v) Manufacturers
- 23.3 (i) True (ii) False (iii) True
(iv) True (v) False
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