DEPARTMENT OF COMMERCE (CA)

NON MAJOR ELECTIVE II - MARKETING (Semester-VI)

III-UG **Sub Code-18BCA6EL**

UNIT – IV

Channels of distribution - Meaning – Function – Types.

Channels of Distribution

Meaning

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

Definition

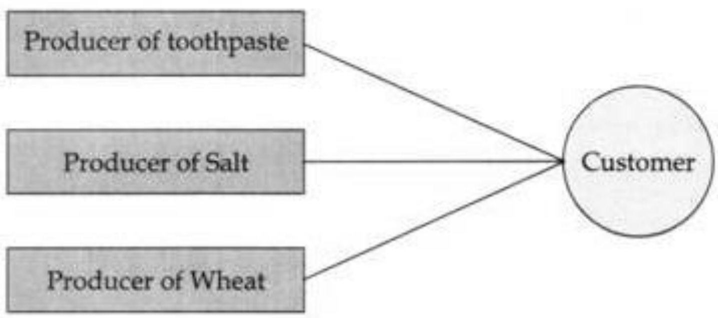
Philips Kotler defines channel of distribution as "a set of independent organisations involved in the process of making a product or service available for use or consumption".

Channels of distribution bring an economy of effort. They help to cover a vast geographical area and also bring efficiency in distribution including transportation and warehousing. Retailers, Wholesalers are the common channels of distribution.

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 Customer wants to purchase toothpaste, salt and wheat.

1. When there is no channel of distribution



2. When there is a channel of distribution, say Retailer.

Channels of Distribution Used for a Consumer Product.

Functions of Distribution Channels:

Following are the main functions performed by the distribution channels:

1. Sorting:

Middlemen obtain the supplies of goods from various suppliers and sort them out into similar groups on the basis of size, quality etc.

2. Accumulation:
In order to ensure a continuous supply of goods, middlemen maintain a large volume of stock.

3. Allocation:
It involves packing of the sorted goods into small marketable lots like 1Kg, 500 gms, 250 gms etc.

4. Assorting:
Middlemen obtain a variety of goods from different manufacturers and provide them to the customers in the combination desired by them. For example, rice from Dehradun & Punjab.

5. Product Promotion:
Sales promotional activities are mostly performed by the producer but sometimes middlemen also participate in these activities like special displays, discounts etc.

6. Negotiation:
Middlemen negotiate the price, quality, guarantee and other related matters about a product with the producer as well as customer.

7. Risk Taking:
Middlemen have to bear the risk of distribution like risk from damage or spoilage of goods etc. when the goods are transported from one place to another or when they are stored in the god-owns.

Types of Distribution Channels:

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 channel. 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. For example, Mc Donalds, Bata, Mail order etc.

Methods of Direct Channel are:
(a) Door to door selling
(b) Internet selling
(c) Mail order selling
(d) Company owned retail outlets
(e) Telemarketing

2. Indirect Channels:
When a manufacturer or a producer employs one or more middlemen to distribute goods, it is known as indirect channel.

(a) Manufacturer-Retailer-Consumer (One Level Channel):

This channel involves the use of one middleman i.e. retailer who in turn sells them to the ultimate customers. It is usually adopted for speciality goods. For example Tata sells its cars through company approved retailers.
Manufacturer→ Retailer→ Consumer

(b) Manufacturer-Wholesaler-Retailer-Customer (Two level channels):

Under this channel, wholesaler and retailer act as a link between the manufacturer and the customer. This is the most commonly used channel for distributing goods like soap, rice, wheat, clothes etc.

Manufacturer→ Wholesaler→ Retailer→ Customer

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

This level comprises of 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 deal in limited products and yet wants to cover a wide market.

Manufacturer → Agent → Wholesaler → Retailer → Consumer

Factors Determining Choice of Channels of Distribution:

1. Product Related Factors:

(a) Nature of Product:
In case of industrial goods like CT scan machine, 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 Ike LCD, refrigerator can be distributed through long channels as they are less expensive, not technical and frequently purchased.

(b) Perishable and Non- Perishable Products:
Perishable products like fruits or vegetables are distributed through short channels while non-perishable 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.

(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.

2. Company Characteristics:

(a) Financial Strength:
The companies having huge funds at their disposal go for direct distribution. Those without such funds go for indirect channels.

(b) Control:
Short channels are used if management wants greater control on the channel members otherwise a company can go in for longer channels.

3. Competitive Factors:

Policies and channels selected by the competitors also affect the choice of channels. A company has to decide whether to adopt the same channel as that of its competitor or choose another one. For example, if Nokia has selected a particular channel say Big Bazaars for sale of their handsets, other firms like Samsung and LG have also selected similar channels.

4. Market Factors:

(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 is high as in case of convenience goods, long channels are used.

(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.

(c) Quantity Purchased:
Long channels are used in case the size of order is small while in case of large orders, direct channel may be used.

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.

REFERENCE:

1. Principles and practice of marketing in India - C.B. Mamoria, R.L. Joshi.
2. Marketing management - Shyan Banerjee
3. Modern marketing – R.S.N.Pillai & Bagarathi

Prepared by Dr.N.SHANMUGAVADIVU