

UNIT-IV

Channels of Distribution-meaning-selection of Distribution channel-marketing middlemen-functions and types.Wholesaling-types and services of wholesaler.Retailing- types and services of retailer.

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CHANNELS OF DISTRIBUTION MEANING

The term distribution collectively refers to all the acts or services rendered by various agencies. It consists of operation or series of operation which physically brings the goods from the producer into the hands of the final user.

The Word Channel is derived form 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.

DEFINITION

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.”

IMPORTANCE OF CHANNEL OF DISTRIBUTION

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. It brings maximum profit to all. 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 shrunk 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 dispersions. They create time, place, form and possession utilities.

TYPES OF CHANNELS OF DISTRIBUTION

1. MANUFACTURER – CONSUMER

This is the direct channel. Products are transferred directly to consumers. It is the shortest and simplest channel. This channel is adopted by the producers of perishable goods, producers of fashion goods who want to sell the products before the fashion disappears, when the product is located near the customers, when the new products are introduced into the market for aggressive sales etc.

The main drawbacks of this direct channel are:

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

For direct selling the methods adopted by the producers are opening sales counter at manufacturer plant, door to door sales, sales by mail order method, sales by opening own shops, sales through mechanical devices.

3. MANUFACTURER – RETAILER --- CONSUMER

In the channel there is an intermediary retailer. A manufacturer sells goods to consumers through these retailers. 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 wholesalers are ignored and the manufacturers renders the functions of a wholesaler.

Generally, automobile appliances, clothings, shoes are sold directly to retailers. Bata India limited uses this channel.

4. MANUFACTURER – WHOLESALER --- RETAILER --- CONSUMER

Wholesaler and retailers are the two types of intermediary in this channel. A manufacturer channels his products to consumers through these intermediaries. The gap between the manufacturers and the consumers is widened due to these intermediaries.

5. MANUFACTURER --- AGENT MIDDLEMEN --- WHOLESALER --- RETAILER – CONSUMER

Agent middlemen, wholesalers, retailers are the three types of intermediaries in this channel. The gap between the manufacturer and the consumer is very great. In this channel the manufacturer uses the services of the agent middlemen for the dispersal of goods. The agent distributes the goods to the wholesalers who sells the goods to retailer and who in turn sells the goods to the consumers.

FACTORS INFLUENCING THE SELECTION OF A CHANNEL

1. MARKET CONSIDERATION

- (a) Nature of the market: This is one of the important factors in market consideration. Consideration takes place about the product which is meant for customer or the industrial buyer. Long channel will have to be employed if the product is meant for consumer market and industrial market.
- (b) The number of potential customers: There is the need for a number of middlemen service if the number of potential customers is large. If the number of potential customers is small direct selling is suggestible.
- (c) Geographic Concentration of the Market: 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.
- (d) Order Size: If the sales volume is large, direct selling is suitable. Industrial distributors sell industrial operating supplies.
- (e) 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.

2. PRODUCT CONSIDERATION

- a. Unit sale value of the product: When the unit value of a product is high, 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 product is of high value.
- b. Bulk and Weight: To minimize the freight, heavy or bulky goods may be sent by train or truck.
- c. Perishable Nature: Perishable products such as milk, dairy products, bread, meat etc are sent by shorter channel or direct channel, while long channel is used for non perishable products.
- d. Technicality: 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 channel is more advantageous.
- e. Seasonal: Sales of the product are subject to seasonal variation, for example, woolen clothes etc. Hence to sell these seasonal products intermediaries are needed. Direct selling is ineffective.

3. COMPANY CONSIDERATION

- a. Financial Strength: Financially sound companies are in a better position to select and design their distribution channel. As such, direct channel is adopted. On the other hand, financially weak companies have to select indirect channel, as they depend on the intermediaries.
- b. 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 connection with such companies.
- c. Market Control: When a firm wants to exercise control over the price, the way in which customers are served etc., direct channel is suggested.

4. MIDDLEMEN CONSIDERATION

The middlemen, who is able to offer a good facility of storage may be considered. 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.

5. CONSUMER CONSIDERATION

The characteristics of buyers as to their number, location, frequency of the purchase, quantities bought by them etc influence the channel selection. If the customers are scattered geographically, a long channel can be adopted. Consumers may wish to have the product at a convenient place; for example daily consumption items like milk, paper, bread etc, consumers may like to have them at the door. The channel adopted must facilitate the commodities produced to be available to the consumers in time.

MIDDLEMEN

MEANING

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

DEFINITION

According to American Marketing Association, “ A middlemen 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.”

CLASSIFICATION OF MIDDLEMEN

There are two types of middlemen in distribution. They are Functional middlemen (Mercantile Middlemen) and Merchant middlemen.

1. 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 title of the goods which they handle.

IMPORTANCE OF MIDDLEMEN

Middlemen are very important in the modern ever widening market, by making the distribution easy and smooth. Organised 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.

FUNCTION SOF 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:

1. 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.
2. They direct the flow of goods from the producer to the ultimate consumer.
3. Merchant middlemen perform the function of merchandising by making the goods fit for the market segmentation.
4. Middlemen is responsible for the flow of goods.
5. Large scale production is possible with the help of middlemen. They collect huge orders and large purchases of products lead to large scale production.

KINDS OF AGENT MIDDLEMEN

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. This type of middlemen are important in the marketing of industrial goods.

4. Selling Agents: Selling agent is an 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 market place. 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.

2. MERCHANT MIDDLEMEN

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

FUNCTIONS OF MERCHANT MIDDLEMEN

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

1. **WHOLESALE**

MEANING

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

DEFINITION

According to 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."

FUNCTIONS OF THE WHOLESALERS

1. Buying and Assembling: The wholesalers procures varieties of goods from various producers regularly and preserves them in his shop for resale.
2. Warehousing: The wholesaler stores goods in large quantities in his own or hired warehouses. This ensures uninterrupted supply of goods to the retailers.
3. Transporting: Transportation involves the bringing of goods from the plant door to his godown and also from his godown to the retailer's shop.
4. Financing: He offers financial assistance to the retailers through extension of credit facilities. On the other hands, he buys from the manufacturers for cash or for relatively shorter period of credit.
5. 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.

SERVICES RENDERED BY WHOLESALERS

1. TO MANUFACTURERS

- a. Wholesalers act as an intermediary between the manufacturer and the retailer.
- b. He is the selling assistant of the manufacturer.
- c. Manufacturer's cost of delivery and storage is reduced by wholesalers. They store goods in their godown and they deliver the goods from the place of production to place of demand.
- d. Wholesalers hold stocks when the price is very low at the time overproduction and sell the stocks when the price is high.
- e. Wholesalers offer financial help to manufacturers. Producers do not give credit facilities to retailers. But wholesalers give credit facility which will enable more sales of products.

2. TO RETAILERS

- a. Wholesalers have a large stock of varieties of goods. Hence retailers are free from holding big stock of goods. The wholesaler's warehouses serve as a reservoir for retailers. They can buy things as and when they need.
- b. Retailers have only limited capital resources. Hence they cannot buy large quantities from the manufacturer. Wholesalers buy large quantities and resell them to retailers in small quantity.
- c. If the retailers purchase goods from the manufacturer, then there will be delay in delivery. On the other hand, if the wholesaler has the stock of goods, he can deliver the goods to the retailers promptly.
- d. Wholesalers grant credit to their permanent retailers. After selling the product, retailer settles the accounts with the wholesaler. He will repay the money once a month or as agreed upon.
- e. Wholesaler informs the arrival of new goods to the retailers. The manufacturer advertises the new product. The wholesaler helps the retailers in efficient window display of the new products in his job.

3. SERVICES TO THE CONSUMERS

- a. It is the wholesaler who introduces fashion and new changes in the market. It increases the standard of living of the people.
- b. Selection of goods is possible as he has a number of varieties of goods. Retailers and consumers can select the required goods from there.
- c. Specialisation leads to decrease in cost and so the retailers and consumers can buy the goods at the low cost.

DISSERVICES OF THE WHOLESALERS

1. The wholesalers make the distribution channel unduly long and prevent the producers and ultimate consumers from coming into close contact.
2. The wholesalers maintain their existence at the cost of others. Their existence in the marketing channel has considerably increased the distribution costs which ultimately fall on the final consumer.
3. The worst type of disservice which the wholesalers can render to the society is by the clever method of cornering. By hoarding the goods in large quantities, they can create artificial demand for such product and indulge in black marketing.

2. RETAILERS MEANING

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

IMPORTANCE OF RETAILERS

It is one of the important functions of marketing process. The retailer is an intermediary in the marketing channel of distribution. He is both a marketer and consumer. He is a specialist is selling the 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.

FUNCTIONS OF RETAILERS

1. Provide personal services to all.
2. Provide two way information.
3. Facilitate standardization and grading.
4. Undertake physical movement and storage of goods.
5. Assemble goods from various sources. Etc.

SERVICES OF THE RETAILER

1. The primary job of a retailer is to assemble different varieties of goods from various wholesalers.
2. 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.
3. He provides the availability of many varieties of goods from many manufacturers. He provide varieties of choice enabling the consumers to select the commodities easily.
4. 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.
5. The retailer gives advice and guidance to the consumers regarding the purchase of goods. It is essential for him to establish permanent and continuous relationship with consumers.

ELIMINATION OF MIDDLEMEN

Wholesalers and retailers act as middlemen between producers and consumers. Apart from the services offered, the cost of their function is an addition to the final price which is recovered from the ultimate consumers. Some people are of the opinion that wholesalers may be eliminated, leaving the retailers, as they cannot be eliminated from the distribution system. It is generally felt that a good amount of the final price is eaten away by the middlemen.

ARGUMENTS IN FAVOUR OF MIDDLEMEN

1. 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.
2. The important functions of distribution and its risk burden are assumed by middlemen, and the producers have been freed.
3. Because of the services of the middlemen, goods are brought to the places where they are needed.
4. Specialisation, which is the result of division of labour, is important in modern marketing, when there are specialized dealers.
5. 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.

ARGUMENTS AGAINST MIDDLEMEN

1. The appearance of middlemen in marketing functions costs about 35% to 50% of the price paid by the consumer.
2. 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.
3. All types of risks arising out of depression and recession, strikes, scarcity are not shouldered by the middlemen.
4. They enter into black marketing in time of scarcity and emergencies with a view to earn huge profits, by boosting the price.

5. Communications have been developed extensively, and different modes of transporting systems are available regularly. Hence, middlemen can be eliminated.

ARGUMENTS AGAINST WHOLESALERS

1. Most of them are only order takers for profit at the cost of the consumers.
2. Relation between producer and consumers is hindered.
3. Encourage black marketing for higher profit.
4. They aim only at higher commission.
5. They do not offer any valuable services to anyone. CONCLUSION

1. Elimination of middlemen does not mean elimination of the marketing functions.
2. There is no sense in eliminating the functions of specialists.
3. Middlemen are essential to deal with the distribution of perishable goods and some of the convenience goods.
4. It is not possible for the producer to distribute the goods to the ocean of customers.

To be more effective, the chain of middlemen should be shortened. Longer the chain, greater the cost.