

Lecture Notes

Class - B. Com Hons Sem VI
Sub Code – BCH- 6.2
Sub – Principles of Marketing
Topic – Distribution in Marketing – Part 2

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Learning outcome from this lecture note:

- ✓ Types of Distribution Channels
- ✓ Routes of Distribution Channels

Types of Distributional Channel

The types of marketing channels are nothing but the route taken by the products to go from the manufacturer to the final consumer. There are certain channels where the products go directly from the manufacturer to the final consumer, but in other channels some intermediaries come in between the manufacturer and the final consumer.

The following are the different channels available:

1. Manufacturer to Consumer (Zero Level/Direct Channel):

The products in this channel go from the manufacturer directly to the final consumer. There is no intervention by any other intermediary. Under this channel, the final consumer must be large enough to buy products in a large quantity directly from the manufacturer or the manufacturer should have the capacity to distribute the goods directly to all the final consumers. Example- An industry purchasing the raw materials directly from the source.

2. Manufacturer to Retailer to Consumer (One Level Channel):

The retailer plays his role in between the manufacturer and the consumer. The retailer buys directly from the manufacturers and sells the goods to the consumers in the required quantities. Such a retailer should be strong enough because on the one hand he has to purchase in a large quantity from the manufacturer and on the other hand sell the products to a large number of consumers in small quantities.

This channel suits organized retailing well because the retailers under this system are not only financially strong but also of a large size such as departmental stores, malls, super bazaars, chain stores etc.

3. Manufacturer to Wholesaler to Retailer to Consumer (Two Level Channel):

We find that in this channel there are two intermediaries in between the manufacturer and the consumer-the wholesaler and the retailer. The wholesaler buys the goods from the manufacturer in very large quantities and in-turn sells the goods in relatively smaller quantities to the retailer, but there is no direct relationship between the manufacturer and the consumer.

The retailer buys the goods from the wholesaler in sufficiently large quantities and sells them in very small quantities to the consumers. The retailer has no direct contact with the manufacturer.

4. Manufacturer to Wholesaler to Consumer (One Level Channel):

The retailer is by-passed in such a channel. The wholesaler buys the goods from the manufacturer in large quantities and sells them directly to the consumers. This arrangement is possible only when the final consumer is able to buy the goods in sufficiently large quantities directly from the wholesaler. This is found in institutional consumers such as hospitals, government departments, educational institutions etc.

5. Manufacturer to Agent to Wholesaler to Retailer to Consumer (Three Level Channel):

Under this channel we find that there is an agent who acts in between the manufacturer and the wholesaler. The agent generally does not buy the goods, he only arranges for the sale of goods from the manufacturer to the wholesalers. From this point onwards the wholesalers sell the goods to the

retailer and the retailer in-turn sells the goods to the final consumer. This arrangement is found in cases where the manufacturer operates on a very large scale over a very wide area and has a very wide product range.

It is not necessary that a company has to use only one type of channel for all its products through its market. It may use the direct or one level channel to reach its customers in the local area and longer channels to reach its customers at far off places. There is no rigidity regarding the use of channels.

If a company uses only one type of channel for all its marketing requirements, it is called a mono-channel or a single-channel policy. If a company uses different types of channels to reach different customers at different places, it is called a dual or a multi-channel policy.

Integrated Channels of Distribution:

The new model of distribution that has emerged is the integrated distribution. Vendors and the channel are moving away from a two-tier distribution model to a single supply chain that leverages various elements of the channel for most distribution logistics. There is also a possibility under this system for a vendor to maintain a direct relationship with the customer and allows for the rise of comprehensive services delivered by either the vendor or the channel.

Routes Used for Bringing the Products to the Market

The most common routes used for bringing the products to the market from-producer to consumer are as follows:

1. Manufacturer-Consumer (Direct Sale):

There are three alternatives in direct sale to consumers.

They are:

- (i) Sale through advertising and direct methods (mail order selling),
- (ii) Sale through travelling sales force (house to house canvassing),
- (iii) Sale through retail shops of manufacture, for example, shops selling mill cloth. Bata Shoe Company outlets, etc.

2. Manufacturer-Retailer-Consumer:

This channel option is preferable when buyers are large retailers, for example, a departmental store, discount house, chain stores, super market, big mail-order houses or cooperative stores. The wholesaler can be by-passed in this trade route. It is also suitable when products are perishable and where speed in distribution is essential. However, the manufacturer has to perform the functions of a wholesaler such as storage, insurance, financing of inventories and transport.

3. Manufacturer-Wholesaler-Retailer-Consumer:

This is a normal, regular and popular channel option used in groceries, drugs goods, etc. It is suitable for producers under the given conditions –

- (i) They have a narrow product line
- (ii) They have limited finance
- (iii) Wholesalers are specialized and can provide strong promotional support,
- (iv) Products are durable and not subject to physical deterioration or fashion changes.

4. Manufacturer-Agent-Wholesaler-Retailer-Consumer:

In this channel the producer uses the service of agent middlemen such as – a sales agent, for the initial dispersion of goods. The agent in turn may distribute to wholesalers, who in turn sell to retailers. There may be a sole selling agent for many manufacturers, for example, Voltas. Many textile mills have sales agents for distribution. Agent middlemen generally operate at the wholesale level. They are common in agricultural marketing.

Agent middlemen sell directly to wholesaler or to a large retailer on commission basis. They are used by manufacturers for marketing of this goods.

5. Manufacturer-Wholesalers-Consumer:

Wholesaler may by-pass retailer when there are large and institutional buyers, e.g., industrial buyers, for example, government, consumer cooperatives, hospitals, educational institutions, business houses, etc.

6. Competitors:

Marketers closely watch the channels used by rivals. Many a time, they prefer similar channels to bring about distribution of their products also. For instance, they may by-pass retail store channel and adopt door-to-door sales.
