

Lecture Notes

Class - B. Com Hons Sem VI
Sub Code – BCH- 6.2
Sub – Principles of Marketing
Topic – Distribution in Marketing – Part 3

Prepared by - Dr. G. Vijayalakshmi.
Faculty of Commerce, Karim City College.

Learning outcome from this lecture note:

- Significance of Distribution channel
 - Factors responsible for selection of Distribution Channel
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Various marketing intermediaries are used in transferring the products from the hands of producers to the final consumers or industrial users. These marketing intermediaries carry alternate names such as wholesalers, distributors, retailers, franchised dealers, jobbers, authorised dealers and agents. Such marketing intermediaries comprise the distribution channel. These distribution channels minimize the gap between point of production and point of consumption, and thereby create place, time and possession utilities.

Role and Significance/Importance of Distribution Channels

Distribution Channels perform a crucial role in the successful distribution and marketing of all products. They have various contacts, expertise and wider knowledge of the products. The rapidly growing markets and increasing complexities of distribution have increased the demand and requirement of the distribution channels.

The role of distribution channels can be summarised as follows:

1. **Distribution channels offer salesmanship:** The distribution channels offer pivotal role of a sales agent. They help in creating new products in market. They specialize in word of mouth selling and promotion of products. They assure pre-sale and post-sale service to the consumers. Since these channels are in direct and regular contact with the consumers, they do salesmanship very well and at the same time provide true and valuable feedback to the producers.
2. **Distribution channels increase distributional efficiency:** The intermediary channels ease the sales process as they are in direct contact with the customers. They narrow down the gap between producers and consumers both economically and efficiently. These intermediaries reduce the number of transactions involved in making products available from producers to consumers. For instance, there are four producers who are targeting to sell their products to four customers . If there is no distribution channel involved, then there will be sixteen transactions involved. But if the producers use distribution channels, then the number of transactions involved will be reduced to eight(four from producer to intermediary and four from intermediary to customer), and thereby the transportation costs and efforts will also be reduced.
3. **The channels offer products in required assortments:** Just like the producers have expertise in manufacturing products, similarly the intermediaries have their own expertise. The wholesalers specialize in moving and transferring products from various producers to greater number of retailers. Similarly, the retailers have expertise in selling a wide assortment of goods in less quantity to a greater number of final customers. Due to the presence of distribution channels(wholesalers and retailers), it is possible for a consumer to buy the required products at right time from a store conveniently located(geographically closer) rather than ordering from a far located factory. Thus, these intermediaries break the bulk and meet the less quantity demand of the customers.
4. **They assist in product merchandising:** It is actually the merchandising by intermediaries which fastens the product movement from the retail shop desk to the customer's basket. When a customer goes to a retail shop, he may be fascinated by the attractive display of some new product,

may get curious about that new product, and he may switch over to that new product leaving his regular product. Thus merchandising activities of the intermediaries serve as a quiet seller at a retail store.

5. **The channels assist in executing the price mechanism between the firm and the final customers:** The intermediaries help in reaching a price level which is acceptable both to the producers as well to the consumers.

6. **Distribution channels assist in stock holding:** The intermediaries perform various other functions like financing the products, storing the products, bearing of risks and providing required warehouse space.

Thus, the distribution channels are a vital constituent of a firm's comprehensive marketing strategy. They assist in expanding product reach and availability, as well in increasing revenue.

Factors responsible for selection of Distribution Channel

The problem of selecting the most suitable channel of distribution for a product is complex. The most fundamental factor for channel choice and channel management is economic criteria, viz., cost and profit criteria. Profit organisations are primarily interested in cost minimisation in distribution and assurance of reasonable profit margin.

However, channel decisions are not made entirely on the basis of rational economic analysis. We have to consider a number of factors such as the nature of the product, market trends, competition outlook, pricing policies, typical consumer needs, as well as needs of the manufacturer himself.

The following are other critical factors:

1. Product:

- a) If a commodity is perishable or fragile, a producer prefers few and controlled levels of distribution. For perishable goods speedy movement needs shorter channel or route of distribution,
- b) For durable and standardised goods longer and diversified channel may be necessary,
- c) For custom made product direct distribution to consumer or industrial user may be desirable,

- d) Systems approach needs package deal and shorter-channel serves the purpose,
- e) For technical product requiring specialised selling and serving talents, we have the shortest channel,
- f) Products of high unit value are sold directly by travelling sales force and not through middleman.

2. Market:

- a) For consumer market, retailer is essential, whereas in business market we can eliminate retailer,
- b) If the market size is large, we have many channels, whereas in a small market direct selling may be profitable,
- c) For highly concentrated markets, direct selling is enough but for widely scattered and diffused markets, we must have many channels,
- d) Size and average frequency of customer's orders also influence the channel decision. In the sale of food products, we need both wholesaler and retailer.

Market means people with money and willing to purchase want-satisfying goods. Age, income group, sex, vocation, religion of customers will have to be studied to secure adequate information of market segments or target markets. Buying habits of customers and dealers will also influence our channel choice. Consumer and dealer analysis will give data on the number, type, location, buying habits of consumers and dealers. Channel choice needs this information. For example, desire for credit, preference for one stop shopping, demand for personal services, amount of time and effort the customer is willing to spend — all are important factors in channel choice.

If ultimate buyers are numerous, the order is small, order frequency is great and buyers insist on the right to choose from a wide variety of brands/goods, we must have three or even more levels of distribution. Market considerations also govern mass distribution (through multiple channels) or selective/exclusive distribution through few or even one dealer. When service after sale is required, e.g., TV Sets, Refrigerators, etc. selective distribution is profitable.

3. Middlemen:

- a) Middlemen who can provide wanted marketing services will be given first preference. Of course, they must be available,

- b) The selected middlemen must offer maximum co-operation particularly in promotional services. They must accept marketing policies and programmes of the manufacturers and actively help them in their implementation,
- c) The channel generating the largest sales volume at lower unit cost will be given top priority. This will minimise distribution cost.

4. Company:

- a) The company's size determines the size of the market, the size of its larger accounts and its ability to get middlemen's co-operation. A big firm may have shorter channel,
- b) The company's product mix influences the pattern of channels. The broader the product line, the shorter will be the channel. If the product mix has greater depth or specialisation, the company can favour selective or exclusive dealerships,
- c) A company with substantial financial resources need not rely too much on the middlemen and can afford to reduce the levels of distribution. A weaker company has to depend on middlemen to secure financial and warehousing reliefs,
- d) New companies rely heavily on middlemen due to lack of experience and ability of management,
- e) A company desiring to exercise greater control over channel will prefer a shorter channel as it will facilitate better co-ordination, communication and control,
- f) Heavy advertising and sale promotion can motivate middlemen to handle displays and join enthusiastically in the promotion campaign and co-operative publicity. In such cases even a longer chain of distribution can be profitable. Thus, quantity and quality of marketing services provided by the company can influence the channel choice directly.

5. Marketing Environment:

Marketing environment can also influence the channel decision. During recession or depression, shorter and cheaper channel is always preferable. In times of prosperity, we have a wider choice of channel alternatives. Technological inventions also have impact on distribution.

The distribution of perishable goods even in distant markets become a reality due to cold storage facilities in transport and warehousing. Hence, this led to expanded role of intermediaries in the distribution of perishable goods.

6. Competitors:

Marketers closely watch the channels used by rivals. Many a time, similar channels may be desirable to bring about distribution of your products also. However, sometimes marketers deliberately avoid customary channels (dominated by rivals) and adopt different channel strategy. For instance, you may by-pass retail store channel (usually used by rivals) and adopt door-to-door sales (Where there is no competition).
