

Study Material

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Subject – Principles of Marketing

Topic – Factors affecting choice of distribution channels

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Factors Affecting the Choice of Distribution Channels

There are a number of factors both objective and subjective and vary from company to company which governs choice or selection of channel of distribution. But there are some which stand out and influence the channel of distribution choice in all cases.

Factors Affecting the Choice of Distribution Channels

Several factors are affecting the choice of distribution channels, They may be described as under:

1. Industrial/Consumer Product

When the product being manufactured and sold is Industrial in nature, direct channel of distribution is useful because of the relatively small number of customers need for personal attention, salesman technical qualifications, and after-sale services, etc.

However, in the case of consumer product, the indirect channel of distribution, such as wholesalers, retailers are the most suitable.

2. Perishability

Perishable goods, such as vegetables, butter, Bakery products, fruits, and seafood, etc. require direct selling as they must reach the consumers as easily as possible after production because of the dangers associated with delays and repeated handling.

3. Unit Value

When the unit value of a product is high, it is usually economical to choose a direct channel of distribution such as the company's own sales force then middleman.

On the contrary, if the unit value is low and the amount involved in each transaction is generally small, it is desirable to choose the indirect channel of distribution, like, through middlemen.

4. Style Obsolescence

When there is a high degree of style obsolescence in products like fashion garments', it is desirable to sell directly to retailers who specialize in fashion goods.

5. Weight and Technicality

When the products are bulky, large in size and technically complicated, it is useful to choose the **direct channel of distribution**.

6. Standard Products

When the products are standardized each unit is similar in shape, size, weight, colour, and quality, etc. It is useful to choose the indirect channel of distribution.

On the contrary, if the product is not standardized and is produced in order, it is desirable to have a direct channel of distribution.

7. Purchase Frequency

Products that are frequently purchased need direct channel of distribution so as to reduce the cost and burden of distribution of such products.

8. Newness and Market Acceptance

For new products with a high degree of market acceptance, usually, there is a need for an aggressive selling effort.

Hence, indirect channels may be used by appointing wholesalers and retailers as sole agents.

This may ensure channel loyalty and aggressive selling by intermediaries.

9. Seasonality

When the product is subject to seasonal variations, such as woollen Textiles in India, it is desirable to appoint sole selling agents who undertake the sale of

production by booking orders from retailers and direct mills to dispatch goods as soon as they are ready for sale as per the order.

10. Product Breadth

When the company is manufacturing a large number of product items, it has greater ability to deal directly with customers because the breadth of the product line enhances its ability to clinch the sale.

11. Financial Strength

The financial strength of the company also determines the channel of distribution.

A company which is financial sound May engage itself in direct selling. On the contrary, a company which is financially weak as to depend on intermediaries and, therefore, has to select an indirect channel of distribution, such as wholesalers. retailers with a strong financial background.

12. Marketing Policies

The marketing policy is formulated by a company to play a very important role in influencing channel choice.

The policies relevant to channel decision may relate to delivery, advertising, after-sale services, and pricing, etc.

For instance, a company which likes to have a policy of speedy delivery of goods to ultimate Consumer may prefer direct selling and thus avoid intermediaries and will adopt a speedy Transportation system.

13. Size of the Company

The large-sized company handling a wide range of products would prefer to have a direct channel for selling its products.

On the contrary, a small-sized company would prefer indirect selling by appointing wholesalers, retailers, etc.

14. Past Channel Experience

Past channel experience of the company also influences the choice of selection of channel of distribution.

For instance, in case of an old established company, it's past good experience of working with certain kind of intermediaries will like to opt for the same channel.

However, different will be the case of the reverse situation.

15. Product Mix

The wider is the company's product mix, the greater will be its strength to deal with its customers directly.

Similarly, consistency in the company's product mix ensures greater opportunity homogeneity or uniformity and similarity in its marketing channels.

16. Reputation

It is said that reputation Travels faster than the man. It is true in the case of companies also who wish to select a channel of distribution.

various factors affecting the choice of the channels of distribution in international marketing

In the case of companies with an outstanding reputation, **like** Tata Steel, Apple, Samsung, Bajaj, Philips, etc. indirect channel of distribution (wholesalers, retailers, etc.) is more desirable and profitable.

17. Consumer Buying Habits

Consumers buying habits also influence the channel decision.

If the consumer expects credit facilities or desires personal services of the salesmen or desires to make all purchases at one place, the channel distribution may be short or long depending on the capacity of the company for providing these facilities.

If the manufacturer can afford these facilities the channel will be shorter otherwise longer.

18. Location of the Market

When the customers are spread over a wide geographical area, the long channel of distribution is most suitable.

On the contrary, if the customers are concentrated and localized, direct selling would be beneficial.

19. Number of Customer

The number of customers also influence the channel decision.

For instance, if the number of customers is quite large, the channel of distribution may be indirect and long, such as wholesalers and retailers, etc.

On the contrary, if the number of customers is small or Limited, direct selling may be beneficial.

20. Size of Orders

Size of orders of the customers influences the channel decision significantly. Where customers purchase the product in large quantities, direct selling may be preferred.

On the contrary, where customers purchase the product in small quantities, frequently and regularly, fire matches, etc.

Long channel (wholesalers and retailers etc) of distribution may be preferred.

21. Sales Volume Potential

In selecting the channel of distribution, the company should consider the capability of the middleman to ensure a targeted sales volume. The sales volume potential of the channel may be estimated through market surveys.

However, it should be kept in mind that no single channel is capable of achieving the targeted sales potential. Two or more channels may be required for this purpose.

22. Availability of Middleman

Availability of the right type of middlemen is also an important consideration in making channel choice decision.

In this connection, the company should make efforts to select aggressively oriented middleman.

In case if they are not available, it is desirable to wait for some time and then to pick up. **In such cases**, the company should manage its own channel to so long the right type of middleman are not available.

23. Middlemen's Attitude

The attitude of the middleman towards the policies of the company also influences the channel decision.

For example, if that company follows the resale price maintenance policy, the choices Limited.

On the contrary, if the company allows the middleman to adopt its own price policy, the choice is quite wide. Quite a large number of middleman would be interested in selling the company's products.

24. Services Provided by Middlemen

If the nature of the product requires after-sale services, repair services, etc. such as automobiles, cars, scooters etc, only those middlemen should be appointed who can provide such services, otherwise, the company will adopt direct selling channel.

25. Cost of Channel

Another factor considered is the cost involved in the distribution.

Direct selling generally is costlier and thus distribution arranged through a middleman is more economical.

In this connection, it must be kept in mind that the channel which ensures efficient distribution at the least expenses and which secures the desired volume of sales should be chosen.

26. Economic Conditions

When economic conditions are bright such as inflation, it is desirable to opt indirect channel of distribution because there is an all-round mode of expectancy, market tendencies are bullish and favourable.

On the contrary, if the market is depressed (such as deflation), shorter channels may be preferred.

27. Legal Restrictions

The legislative and other restrictions imposed by the state are extremely formidable and give final shape to the channel choice.

For instance, in India MRTP Act 1969 prevents channel arrangements that tend to subsequently lessen competition create a Monopoly and are otherwise Prejudicial to the public interest.

With these objectives at the backdrop, it prevents exclusive distributorship territorial restrictions, resale price maintenance, etc .

28. Competitors Channel

This also influences the channel choice decision. Mostly, in practice, similar types of channels of distribution used by the competitors are preferred.

29. Fiscal Structure

Fiscal structure of a country also influences the channel choice decision.

For example, In some countries states tax rates vary from state to state and form a significant part of the ultimate price payable by a customer.

30. Available Facilities

Facilities possessed by the middleman also play their role in the selection of middleman. So far as wholesalers are concerned the firm carefully evaluate their storage capacity in the form of warehouses, Sales force, delivery vans, etc.

At the time of selection of retailers, the firm should ensure available floor space, inner layout, good calibre counter salesman and after-sale services. Those middlemen should be given preference who are having maximum facilities.

In the metros and big cities, the parking problem is very crucial. Customers find enormous difficulty in getting their vehicles parked.

Therefore, at the time of selection of retailers, their available parking space is also an important consideration people will not mind going some far away, in they are assured of safe parking.

31. Prospective Sales

At the time of selection of middleman, the firm gives preference to those middlemen, from whom it could secure good prospective sales.

Thus, the manufacturer or the producer should take into consideration the above factors affecting the choice of distribution channels
