STUDY NOTE

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TOPIC: PRICING

Distribution Channels - Meaning and Their Significance

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 compromise 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

Dristribution 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 ecoomically 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.

Distribution Channels – Definition, Types, & Functions

Product’s availability, ease of access, and the way it reaches the customer influence its demand at many levels. Distribution channels are a key element in all the marketing strategies that revolve around the product. They help you reach the customer in a way to maximise your revenue and brand awareness.

What is a Distribution Channel?

A distribution channel (also called a marketing channel) is the path or route decided by the company to deliver its good or service to the customers. The route can be as short as a direct interaction between the company and the customer or can include several interconnected intermediaries like wholesalers, distributors, retailers, etc.

Hence, a distribution channel can also be referred to as a set of interdependent intermediaries that help make a product available to the end customer.

Functions of Distribution Channels

In order to understand the importance of distribution channels, you need to understand that it doesn’t just bridge the gap between the producer of a product and its user.

 Distribution channels provide time, place, and ownership utility. They make the product available when, where, and in which quantities the customer wants. But other than these transactional functions, marketing channels are also responsible to carry out the following functions:

 Logistics and Physical Distribution: Marketing channels are responsible for assembly, storage, sorting, and transportation of goods from manufacturers to customers.

 Facilitation: Channels of distribution even provide pre-sale and post-purchase services like financing, maintenance, information dissemination and channel coordination.

 Creating Efficiencies: This is done in two ways: bulk breaking and creating assortments. Wholesalers and retailers purchase large quantities of goods from manufacturers but break the bulk by selling few at a time to many other channels or customers. They also offer different types of products at a single place which is a huge benefit to customers as they don’t have to visit different retailers for different products.

 Sharing Risks: Since most of the channels buy the products beforehand, they also share the risk with the manufacturers and do everything possible to sell it.

 Marketing: Distribution channels are also called marketing channels because they are among the core touch points where many marketing strategies are executed. They are in direct contact with the end customers and help the manufacturers in propagating the brand message and product benefits and other benefits to the customers.

Types of Distribution Channels

Channels of distribution can be divided into the direct channel and the indirect channels. Indirect channels can further be divided into one-level, two-level, and three-level channels based on the number of intermediaries between manufacturers and customers.

Direct Channel or Zero-level Channel (Manufacturer to Customer)

Direct selling is one of the oldest forms of selling products. It doesn’t involve the inclusion of an intermediary and the manufacturer gets in direct contact with the customer at the point of sale. Some examples of direct channels are peddling, brand retail stores, taking orders on the company’s website, etc. Direct channels are usually used by manufacturers selling perishable goods, expensive goods, and whose target audience is geographically concentrated. For example, bakers, jewellers, etc.

Indirect Channels (Selling Through Intermediaries)

When a manufacturer involves a middleman/intermediary to sell its product to the end customer, it is said to be using an indirect channel. Indirect channels can be classified into three types:

 One-level Channel (Manufacturer to Retailer to Customer): Retailers buy the product from the manufacturer and then sell it to the customers. One level channel of distribution works best for manufacturers dealing in shopping goods like clothes, shoes, furniture, toys, etc.

 Two-Level Channel (Manufacturer to Wholesaler to Retailer to Customer): Wholesalers buy the bulk from the manufacturers, breaks it down into small packages and sells them to retailers who eventually sell it to the end customers. Goods which are durable, standardised and somewhat inexpensive and whose target audience isn’t limited to a confined area use two-level channel of distribution.

 Three-Level Channel (Manufacturer to Agent to Wholesaler to Retailer to Customer): Three level channel of distribution involves an agent besides the wholesaler and retailer who assists in selling goods. These agents come handy when goods need to move quickly into the market soon after the order is placed. They are given the duty to handle the product distribution of a specified area or district in return of a certain percentage commission. The agents can be categorised into super stockists and carrying and forwarding agents. Both these agents keep the stock on behalf of the company. Super stockists buy the stock from manufacturers and sell them to wholesalers and retailers of their area. Whereas, carrying and forwarding agents work on a commission basis and provide their warehouses and shipment expertise for order processing and last mile deliveries. Manufacturers opt for three-level marketing channel when the userbase is spread all over the country and the demand of the product is very high.

Dual Distribution

When a manufacturer uses more than one marketing channel simultaneously to reach the end user, he is said to be using the dual distribution strategy. They may open their own showrooms to sell the product directly while at the same time use internet marketplaces and other retailers to attract more customers.

A perfect example of goods sold through dual distribution is smartphones.

Distribution Channels for Services

Unlike tangible goods, services can’t be stored. But this doesn’t mean that all the services are always delivered using the direct channels.

With the advent of the internet, online marketplaces, the aggregator business model, and the on-demand business model, even services now use intermediaries to reach to the final customers.

The Internet as a Distribution Channel

The internet has revolutionised the way manufacturers deliver goods. Other than the traditional direct and indirect channels, manufacturers now use marketplaces like Amazon (Amazon also provide warehouse services for manufacturers’ products) and other intermediaries like aggregators (uber, Instacart) to deliver the goods and services. The internet has also resulted in the removal of unnecessary middlemen for products like software which are distributed directly over the internet.

Factors Determining the Choice of Distribution Channels

Selection of the perfect marketing channel is tough. It is among those few strategic decisions which either make or break your company.

Even though direct selling eliminates the intermediary expenses and gives more control in the hands of the manufacturer, it adds up to the internal workload and raises the fulfilment costs. Hence these four factors should be considered before deciding whether to opt for the direct or indirect distribution channel.

Market Characteristics

This includes the number of customers, their geographical location, buying habits, tastes and capacity and frequency of purchase, etc.

Direct channels suit businesses whose target audience lives in a geographically confined area, who require direct contact with the manufacturer and are not that frequent in repeating purchases.

In cases of customers being geographically dispersed or residing in a different country, manufacturers are suggested to use indirect channels.

The buying patterns of the customers also affect the choice of distribution channels. If customers expect to buy all their necessaries in one place, selling through retailers who use product assortment is preferred. If delivery time is not an issue, if the demand isn’t that high, the size of orders is large or if there’s a concern of piracy among the customers, direct channels are suited.

If the customer belongs to the consumer market, longer channels may be used whereas shorter channels are used if he belongs to the industrial market.

Understanding consumer behaviour is essential for deciding the most effective marketing channel for the business.

Product Characteristics

Product cost, technicality, perishability and whether they are standardised or custom-made play a major role in selecting the channel of distribution for them.

Perishable goods like fruits, vegetables and dairy products can’t afford to use longer channels as they may perish during their transit. Manufacturers of these goods often opt for direct or single level channels of distribution. Whereas, non-perishable goods like soaps, toothpaste, etc. require longer channels as they need to reach customers who reside in areas which are geographically diverse.

If the nature of the product is more technical and the customer may require direct contact with the manufacturer, direct channels are used. Whereas, if the product is fairly easy to use and direct contact makes no difference to the number of sales, longer channels are used.

The per unit value of the product also decides whether the product is sold through a direct channel or through an indirect channel. If the unit value is high like in the case of jewellery, direct or short channels are used, whereas products like detergents whose unit value is low use longer channels of distribution.

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