
UNIT 10 HOME TRADE AND CHANNELS OF DISTRIBUTION

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10.0 OBJECTIVES

After studying this unit, you should be able to:

- explain home trade and the nature of distribution system
- state the meaning and functions of channel of distribution
- describe the common distribution channels used
 - outline the factors influencing the choice of a distribution channel
- explain the role of middlemen in the distribution system
- distinguish between different types of middlemen

10.1 INTRODUCTION

As you know, in the modern society the production of goods takes place on a large scale in factories concentrated in few localities while the consumers are scattered throughout the country. For instance, textile mills are concentrated at a few places like Bombay, Ahmedabad, Coimbatore, etc., while the cloth is used by all the people in the country. Similarly Maruti cars are manufactured at Delhi while the users are spread in all parts of the country. Something is true of agricultural commodities. Apples are produced mainly in Kashmir Valley and Himachal Pradesh whereas they are consumed by people throughout the country. Another such example is tea which is mainly produced in Assam while it is consumed everywhere in the country. Thus, in most of the cases goods are produced at one place while they are consumed at various other places. It is not possible for all the consumers to know the place where goods are produced and contact the producers directly. Similarly, it is not possible for all the producers to contact the consumers directly and sell the goods. Hence, it is essential to move the goods from the place of production to the markets where consumers can buy them. Otherwise, production has no value and it becomes waste.

There is another barrier which arises due to time lag between production and consumption. The goods produced are not consumed at the same point of time. Some goods are produced throughout the year, but their consumption is seasonal. For example, umbrellas and raincoats are used only during rainy season, woollen garments are used only during winter season. In some other cases, goods are produced during a specific season while they are consumed continuously throughout the year. For example foodgrains are produced by farmers during a particular season and are consumed throughout the year. Thus, in many cases, there is time lag between production and consumption.

Producers and consumers are, thus, separated by place and time. Production has no value unless goods are supplied to the consumers at the right place and at the right time. Hence the distribution of goods assumes importance in the business operations. It is the distribution system which moves the goods from the place of production and make them available to the consumers at the right place and right time. In this unit you will learn how the distribution system facilitates the flow of goods from producer to consumer and what channels are generally used for the distribution of consumers' and producers' goods. You will also study the factors that affect the choice of a channel and the role of various types of middlemen involved in the distribution system.

10.2 HOME TRADE AND DISTRIBUTION SYSTEM

As you know that the goods produced in a country can be sold within the country or outside the country. When the exchange (sale and purchase) of goods takes place within the boundaries of a country, it is known as home trade. It is also called **domestic** trade. Similarly, if the exchange of goods takes place across the boundaries of a country, it is called foreign trade. You will learn in detail about the foreign trade in Unit 12. In this unit we will discuss about the home trade only.

You know a large variety of goods are traded within the country in markets located in cities, towns and villages. You can notice small shops such as provision stores, medical stores, cloth stores, etc. which display a variety of goods for customers to buy. You will observe that these shops are located in places where the customers can conveniently reach and make their purchases. All the goods sold in these shops must have been produced elsewhere either in the factories or in the agricultural farms. How the goods produced in the factories or farms reach these shops located in cities, towns and villages? Somebody must have taken that responsibility and performed various functions necessary to move the products from the place of production to the places where the consumers can buy. The system which is concerned with the movement of goods from the point of production to the point of consumption may be called distribution system. The distribution system performs a variety of functions to ensure the smooth and continuous flow of goods. We can list the functions of a distribution system as follows:

- 1) **Buying and Assembling:** For selling the goods, they have to be bought first. For buying the goods, it may be necessary to contact producers in different places. Purchases must be made in adequate quantities so that it becomes economical for handling. In this process, goods may have to be procured from different sources of supply and assembled in a warehouse or godown till the time they are sold.
- 2) **Standardisation and Grading:** To facilitate the sale and purchase of goods, different varieties must be sorted out so that goods of uniform quality may be offered for sale. Manufactured goods are generally graded according to size, shape, colour, quality etc., at the time of production itself. So there is no need for grading afterwards. But agricultural products have to be graded according to the differences in their quality because the farmers normally do not undertake grading before they sell them in the market.
- 3) **Branding:** The producers often select their own brand names for the goods they market. These brand names help easy identification of the goods offered for sale e.g., Postman oil, Hamam soap, Onida TV, Brooke Bond Coffee, etc. By using brand name the producer or seller tries to distinguish his products from other competing brands.
- 4) **Packing and Packaging:** Certain types of goods have to be put in proper containers or packed properly to prevent damage in course of transportation or storage or handling. On the other hand, presenting goods in convenient packages, boxes, tins, or bottles, is necessary for easy handling by buyers or for resale. Thus, packing as well as packaging of goods is necessary to facilitate the sale of goods.

Besides these major functions there are certain other functions like transportation, risk bearing, market information, financing, warehousing, etc. All these functions are to be performed by various agencies involved in the distribution system.

Check Your Progress A

- 1) Distinguish between home trade and foreign trade?

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2 Which of the following statements are True and which are False?

- i) Distribution means only buying and selling of goods.
- ii) Brand names help buyers to identify the products easily.
- iii) Grading and Packaging mean the same thing.
- iv) The distribution system means transportation of goods from factories to markets.
- v) Collection of goods from different sources of supply is known as assembling.

3 State whether the following transactions come under home trade or foreign trade.

- i) A wholesaler in Bombay sold goods to a retailer in Delhi.
- ii) Mr. Rajesh bought a colour TV for his personal use from a dealer in Delhi. Later Mr. Rajesh migrated to Nepal and carried the TV with him.
- iii) A wholesaler in Madras bought cameras from a manufacturer in Japan.
- iv) A Manufacturer in Hyderabad sold leather goods to a wholesaler in London.

10.3 WHAT IS A CHANNEL OF DISTRIBUTION?

You have learnt that the distribution system is concerned with the movement of goods from the point of production to the point of consumption which involves a variety of functions. You also learnt that such functions are performed by various agencies involved in the distribution system. The main participants in the distribution system are: (i) the manufacturers, (ii) the intermediaries, (iii) the facilitating agencies, and (iv) the consumer's. Let us study the role of each participant.

Manufacturers produce the goods. In the distribution system this is the starting point for the goods. The second category of participants i.e., intermediaries, are involved in direct negotiation between buyers and sellers whether or not they take title to goods. These intermediaries locate the manufacturers who produce various products, identify the needs of the consumers and distribute the goods. In the process they perform various functions like buying, selling, assembling, standardisation and grading, packing and packaging, risk bearing, etc. Facilitating agencies are the independent business organisations other than intermediaries. They help the distribution of goods from originalors to users. These agencies facilitate the smooth distribution of goods from producers, through intermediaries, to consumers. The major facilitating agencies are advertising agencies, banking institutions, insurance companies, transportation agencies, and warehousing companies. You have learnt about these agencies as 'aids to trade' in Unit 1. The fourth category of participants in the distribution system, i.e. consumers, are the final destination for goods in the distribution system.

Channel of distribution is mainly concerned with second participant i.e., the intermediaries. The term 'Channel of Distribution' refers to the route taken by goods as they flow from the producer to the consumer. This flow of goods may mean its physical distribution and/or the transfer of title (ownership). Channel of distribution is mainly concerned with the transfer of title to a product which may be effected directly or through a chain of intermediaries. You know most producers do not sell goods directly to the consumer. They make use of a variety of intermediaries known as middlemen. These middlemen who take title to goods or assist in transferring the title to goods as they move from the producer to the consumer are called the channel of distribution. Thus, the *channel of distribution is a network of institutions that perform a variety of interrelated and coordinated functions in the movement of goods from producers to consumers.*

10.4 FUNCTIONS OF CHANNELS OF DISTRIBUTION

The functions performed by channel of distribution may be grouped into three categories as follows:

- 1 . Transactional Functions
- 2 Logistical Functions
- 3 Facilitating Functions

1 Transactional Functions: Functions necessary to a transaction of the goods are called transactional functions. Buying, and risk bearing functions come under this category. Participants in the channel of distribution undertake these three functions. Producers sell the goods and intermediaries buy them. Later intermediaries sell the goods and consumers buy them. Because of this buying and selling by the channel participants, title to goods change hands and goods flow from producer to consumer. If there is no willingness for buying and selling, there would be no **transaction**. When goods are bought, it involves risk also. For instance, an intermediary bought goods from the producer with the intention of selling at a profit. But he incurred loss due to fall in price. All the participants in the distribution channel assume such risk of loss.

2 Logistical functions: The functions involved in the physical exchange of goods are called logistical functions. Distribution channel performs some functions like assembling, storage, grading and transportation which are essential for physical exchange of goods.

Goods are assembled in sufficient quantity to constitute an efficient selling and shipping quantity. Sometimes, it is also necessary to assemble a variety of goods to provide an assortment of items desired by buyers. Grading and packing of goods facilitate handling and sale of goods promptly. Proper storage of goods prevents loss or damage as well as helps regular supply of goods to consumers whenever they want. Transportation **makes** goods available at the place at which the buyers are located. In the channel of distribution all these functions are performed so that various types of goods may reach the market place at proper time and may be conveniently sold to the ultimate consumers.

3 Facilitating functions: These functions facilitate both the transaction as well as physical exchange of goods. These facilitating functions of the channel include postpurchase service and maintenance, financing, market information, etc. Sellers provide necessary information to buyers in addition to after-sales services and financial assistance in the form of sale on credit. **Similarly**, traders are often guided by producers to help them in selling goods, while the traders also inform producers about the customers opinion about the products.

Thus, the channel of distribution performs a variety of functions such as buying, selling, risk bearing, assembling, storage, grading, transportation, post purchase service and maintenance, financing, market information, etc. But the relative importance of these functions **may** vary according to the nature of the goods. For example, transportation and storage are more important for perishable goods and bulky materials, such as coal, petroleum products, iron ore, etc. **In** the case of automobiles and sophisticated **electronic** goods like computers, after sales service is very important.

10.5 CHANNELS OF DISTRIBUTION USED

You have learnt about the nature and functions of channels of distribution. We shall now discuss the channels of distribution **commonly used** by the producers.

We can classify the distribution channels into two broad categories: (1) direct channels, and (2) indirect channels (use of middlemen).

1 Direct Channels: When the producers sell their goods directly to the consumers it is called a direct channel. No middlemen is present between the producer and the consumer.

They establish direct link with the consumers through travelling salesmen or through their own retail shops or show-rooms. The producer or manufacturer may employ salesmen to book orders by contacting **the potential** users, and supply may be arranged from the stock held by the producer himself. Alternatively, the producer may set up retail **shops/show** rooms in different localities and **sell goods** directly to the customers as shown below.

- 1 Producer → Travelling Salesman → Consumer
- 2 Producer → Retail shop/showroom → Consumer

2 Indirect channels: In the case of all the products it is not possible for the manufacturer to supply goods directly to the consumers. So may be middlemen like wholesaler, retailer and mercantile agents may be engaged in the **channel** of distribution. When the middlemen are engaged, it is called an indirect channel. As shown below, there could be four indirect channels.

- 1 Producer → Retailer → Consumer
- 2 Producer → Wholesaler → Consumer
- 3 Producer → Wholesaler → Retailer → Consumer
- 4 Producer → Agent → Wholesaler → Retailer → Consumer

The manufacturer may supply goods directly to retail traders. In this case the producer ascertains the requirements of retailers at periodical intervals and goods supplied accordingly. As and when required, the retailer may also procure goods **from** the producer's **godown** located in that region. In the same way, the producer can supply goods to the consumers by using the services of the wholesale trader. Alternatively, the producer can use the services of the wholesaler as well as the retailer. In this case the manufacturer may supply his products in bulk to wholesalers. The retailer may buy periodically from the wholesaler and sell the same to the consumers located in his locality. Another alternative channel of distribution consists of mercantile agent, wholesaler and retailer. In this case, the manufacturer deals with a mercantile agent. Then the wholesalers buy the goods from the agents and sell the same to retailers. In turn the retailer sells it to the ultimate consumers.

We have understood that there are a number of channels of distribution prevalent. Let us now examine how these channels of **distribution** are varying from **one** type of product to another type. Basically we can classify the goods into **two** categories: 1) consumer goods, and 2) industrial goods. Let us now discuss briefly about the channels of distribution for these two categories of products.

10.5.1 Channels of Distribution Used for Consumer Goods

As you know, the goods which are consumed by the household consumers are called consumer goods. Under this category you can find a very wide range of items such as food items, stationery, cars, clothing, shoes, household electrical appliances, TV sets, transistors, etc. The channel of distribution used for different **products** is not the same. Channels are different from one type of product to the other. Look at Figure 10.1 carefully. It gives the idea about the channels of distribution for some of the consumer goods.

As shown in the figure, sometimes consumers go directly to the factory and buy the goods or order the goods from the catalogue. Durable consumer goods like cars, clothing, furniture, textbooks, shoes, etc., are generally distributed through retailer. In many cases showrooms are established by the manufacturer himself which undertake the retail trade. For example, Bata Shoe Company sells shoes through its showrooms. Consumer goods like auto spare parts, stereos, video recorder, etc., are distributed through wholesalers and retailers. Consumer goods of daily need like foodgrains, sugar, salt, edible oil, soap, paper, pencils, etc., are generally distributed through agent or broker, wholesaler and retailer.

10.5.2 Channels of Distribution Used for Industrial Goods

As you know, the goods which are consumed by industry for further production of goods are called industrial goods. Under this category there are a variety of products such as machinery, equipment, industrial raw-materials (e.g. sugarcane, cotton, coffee, oilseeds, iron ore, etc.), electrical and electronic components, etc. The channels of distribution are not similar for all the products under this category. Look at Figure 10.2 carefully. It presents the channels of **distribution** for some of the industrial goods.

High value industrial goods like mainframe computers, aircraft, heavy machinery, etc., are supplied directly to the buyers. In these cases manufacturers procure orders by mail on the basis of catalogues and price lists. Sometimes salesmen **are** also used to contact the buyers. Relatively less expensive items like trucks, conveyor **systems**, etc., are supplied through distributors. You know industries consume many agricultural products. For instance, tea leaves are processed to prepare tea powder which we **use** for preparing tea. Agricultural products like corn, coffee, **soybeans**, etc., are procured by the industrial buyers through agent middlemen. When electrical components are imported from foreign markets, they are procured through an agent and industrial distributor.

Figure 10.1
Channels of Distribution for Consumer Goods

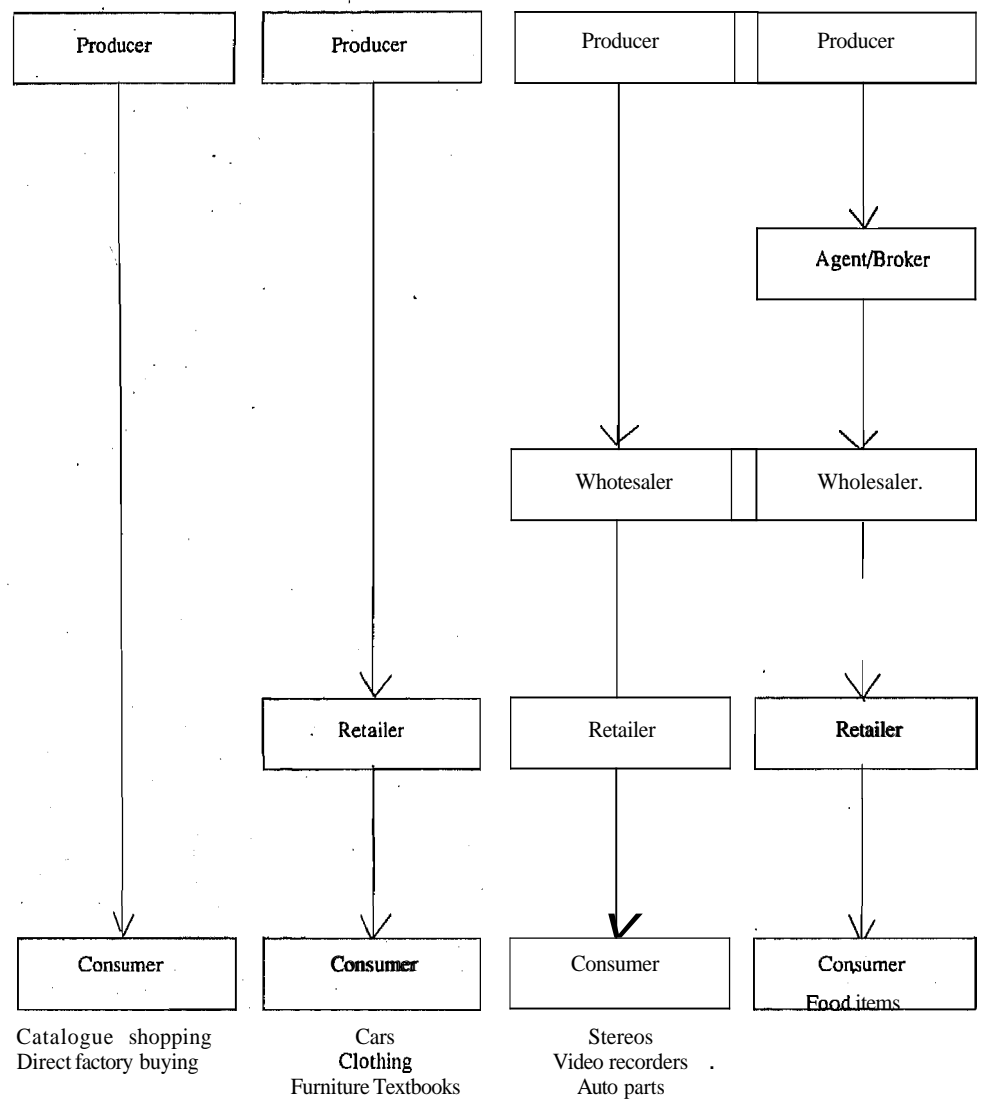
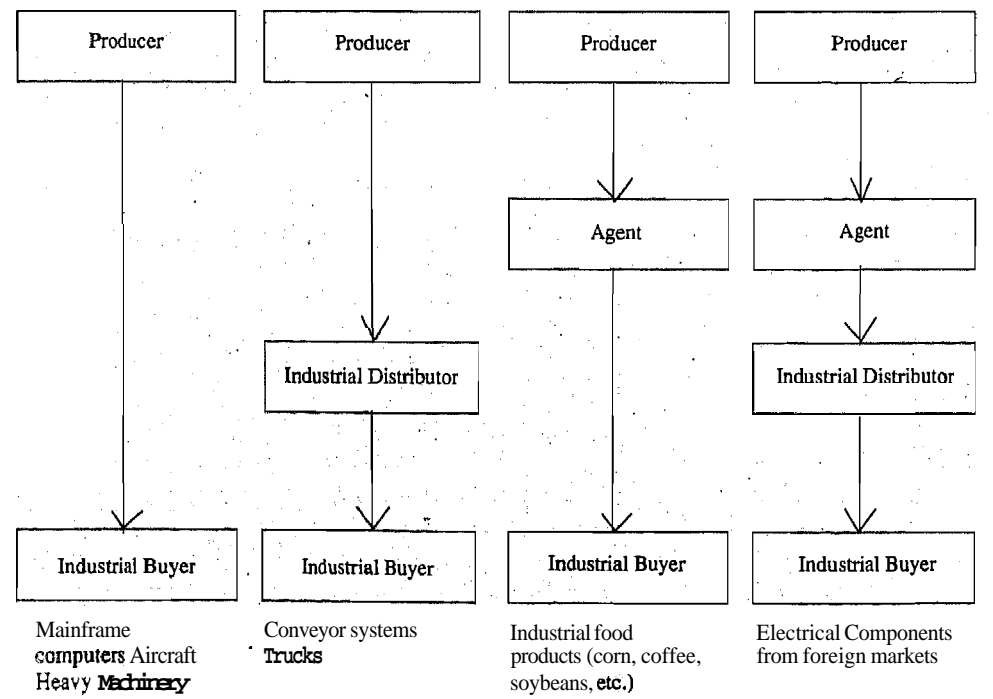


Figure 10.2
Channels of Distribution for Industrial Goods



10.6 FACTORS INFLUENCING THE CHOICE OF CHANNEL

We have learnt that there are a number of channels used for distributing the goods. There are direct channels and indirect channels, short channels as well as long channels. We also learnt that the different channels are used for different types of products. When there are alternatives available, the selection of an appropriate channel becomes a very important decision for the producers. The choice of channel for distribution of any product should be such that it effectively meets the need of customers in different markets at reasonable cost. The following factors generally influence the choice of the channel of distribution :

- 1 Distribution policy
- 2 Characteristics of the product
- 3 The target customers in view
- 4 Supply characteristics
- 5 Types of middlemen in the field
- 6 Channel competition
- 7 Potential volume of sales
- 8 Costs of distribution
- 9 Profits expected in the long-run

1 Distribution policy : Where the manufacturer is interested in distributing his products through all possible outlets, it is desirable to use more than one channel to reach the target customers. This is known as intensive distribution policy. The purpose in this case is to make the product available as near to the consumers as possible. Consumer goods of frequent use like pens, pencils, paper, soap, hair oil, etc., are distributed through a large number of wholesalers and retail traders.

If goods are meant for customers who are very particular about their quality and usefulness, manufacturers adopt a selective distribution policy. In that case, few selective channels which can be relied upon for their efficiency of operation are used. For examples, goods like computers and TV sets, which require special services, are distributed through selected outlets like dealers with established reputation of dealing in those products and having a sound financial position.

Sometimes, companies, manufacturing complex machinery, scientific instrument, etc., appoint particular agents for distribution of the products. In other words, the manufacturers prefer a single outlet. The agents or distributors become exclusive dealers of the items because of their technical knowledge and experience of dealing in that particular product line. This is known as exclusive distribution policy. Thus, the choice of the distribution channel is dependent on the distribution policy adopted by the producer of goods.

2 Characteristics of the product : The nature of the product influence the choice of channel. For example, perishable products like eggs, milk, etc., are supplied either directly or through the short channels. In the case of heavy and bulky products (e.g. cement, steel) where distribution and handling costs are more, short channels are preferred. Sophisticated electrical and electronics equipment which require careful handling are also generally distributed directly or through short channels. On the other hand, long channels are found in the case of light-weight and small-size items like dress material, readymade garments, pocket calculators, stationery, toothpaste, toothbrush, etc. Similarly, simple mechanical products like electronic toys, time-clocks, etc., are supplied through long channels for intensive distribution.

3 Characteristics of target customers : If the number of customers is large and geographical area is extensive, long and multiple channels are necessary for intensive distribution of goods. This is also suitable where the consumers are in the habit of making frequent purchases of small quantities at irregular intervals. Short channels and direct selling are possible in the case of few customers who purchase large quantities at regular intervals and they are concentrated in a small area.

4 Supply characteristics : Goods produced by a small number of producers concentrated in one region are generally distributed through short channels. Particularly this is more so if each producer controls a fairly large share of the market. Long channels are suitable if a large number of producers in different regions produce and supply the goods.

5 Types of middlemen : Availability of suitable middlemen in the channel of distribution

is another factor in the selection of the channel. This is because different functions like standardisation, grading, packing, branding, storage, after sale servicing, etc., are expected to be performed by middlemen. Efficiency of distribution depends upon the size, location and financial position of middlemen. If the middlemen in a specific channel are dependable and efficient that channel may be preferred by producers.

6 Channel competition : There are different situations in which manufacturers compete with each other for availing the services of particular wholesalers. Similarly, wholesalers often compete with each other to deal with particular retailers or carrying particular brands of products. Sometimes producers use the same channel which is used by their competing producers. If any producer arranges exclusive distribution through a particular wholesaler, other producers also do the same. Thus, selection of a channel may depend on the competition prevailing in the distribution system.

7 Potential volume of sales : The choice of the channel depends upon the target volume of business. The ability to reach target customers and the volume of sales varies between different channels. One outlet may not be adequate for achieving the target in which case more channels need to be used. Of course, the competitive situation must be taken into account while examining the potential volume of sale through different channels:

8 Cost of distribution : The various functions carried out in the channel of distribution add to the cost of distribution. While choosing a channel, the distribution costs of each channel should be calculated and its impact on the consumer price should be analysed. A channel which is less expensive is normally preferred. Sometimes, a channel which is convenient to the customers is preferred even if it is more expensive. In such cases the choice is based on the convenience of the customers rather than the cost of distribution.

9 Long-run effect on profit : Direct distribution, short channels, and long channels have different implications with regard to the profits in the short-run and long-run. If demand for a product is high, reaching the maximum number of customers through more than one channel may be profitable. But the demand may decline in course of time if competing products appear in the market. It may not be economical then to use long channels. So, while choosing a channel one should keep in mind the future market implications as well.

Check Your Progress B

1 What is a channel of distribution?

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2 Distinguish between intensive distribution and exclusive distribution.

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3 What is a direct channel of distribution ?

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4 Which of the following statements are True and which are False?

- i) Buying and selling of goods take place only once or twice in any channel of distribution.
- ii) Industrial distributor or dealer is an essential link in the channel of distribution of industrial goods.
- iii) Consumer goods of daily use are distributed by manufacturers only through the

- retail shops under their control.
- iv) Traders not **only undertake** storage and transportation of goods but also bear the risks of loss or damage.
 - v) Larger the number of middlemen, longer is the channel of distribution.
 - vi) The purpose of **intensive distribution** policy is to make **the products available in** markets nearest to the consumers.
 - vii) **Long** channels are suitable for the **distribution of** light weight and **small** size articles.
 - viii) Efficiency of distribution depends upon the size and location of middlemen in the channel of distribution.

10.7 TYPES OF MIDDLEMEN

Middlemen act as links between the producers or dealers of goods and the consumers. Broadly speaking, they may be divided into two categories:

- i) Functional middlemen or mercantile agents
- ii) **Merchant** middlemen

10.7.1 Functional Middlemen

Those who undertake various marketing functions in the process of distribution of goods without having ownership rights are called **functional** middlemen. These functional middlemen operate on behalf of owners. They perform a specific function or undertake general functions relating to purchase and sale. These middlemen are also called 'mercantile agents'. Depending on the functions performed, the functional middlemen may be classified into five categories. Let us discuss about **them** briefly.

- 1 **Factors:** A middleman who keeps the goods of others and sells them with the approval of the owner is known as a 'factor'. The goods are normally in his possession or under his **control**. With the approval of the owner the factor can sell the goods as agent, or sell in his own name, or pledge goods in his possession, or can do all such acts as can be done by the owner of the goods. After the sale of goods, he receives the payment from the buyer. He receives commission at a fixed percentage on sales from his principal.
- 2 **Brokers:** Middlemen who bring together the buyers and sellers and negotiate the terms and conditions of sale on behalf of either the buyer or seller are known as **brokers**. When a broker acts on behalf of **the** buyer, he is known as buying agent. If the owner of goods employs a broker for sale of the goods, the broker is known as a selling agent. For his services, the broker receives a fixed percentage of the value of transaction as brokerage from the employer i.e., either buyer or seller.
- 3 **Commission Agent:** The commission agent is a middleman who sells goods as an agent of the owner. He takes **the possession** of the goods, negotiates the terms of sale with the intending buyers, and arranges transfer of title of the goods to the buyer. If necessary, the commission agent also performs various other functions like storage, grading, packaging, etc. For his services, the commission agent receives remuneration from **his principal** as a percentage of the value of goods sold.
- 4 **Del Credere Agents:** Generally if any **mercantile** agent sells goods on credit with the approval of the owner, he is not responsible for any loss which may arise due to non-payment by the buyer. **The owner** or principal has to bear the risk of loss on account of such bad debts. When a mercantile agent sells the goods on credit and assumes the **risk** of bad debts, he is known as a **del credere** agent. For **bearing such** risk of bad debts, additional commission as a fixed percentage of the amount of credit sales is given to him. This additional commission is called del credere commission. In other words, the **del credere agent** bears the loss which **may** arise on account of bad debt and the owner is protected **against** the loss.
- 5 **Auctioneers:** **Middlemen** appointed as agents to sell goods by auction are known as auctioneers. They assemble goods from different parties and act on their behalf to sell them to intending buyers. The date and time of auction are announced in advance. Goods are displayed for inspection by interested buyers, Bids are then invited by the auctioneer

from those present at the time of auction. Sometimes a minimum price is fixed for specific items known as reserve price and bids are not accepted below that reserve price. The goods are sold to the highest bidder. The auctioneer gets commission from the principal (seller) as a percentage on the sale price.

10.7.2 Merchant Middlemen

Middlemen who act on their own right buying and selling goods at a profit, are called merchant middlemen or merchants. They acquire title to the goods and bear the risks of trade besides performing various functions like storing, grading, packing and packaging, etc. Merchant middlemen may be divided into two categories.

- i) Wholesale traders
- ii) Retail traders

Merchants who buy goods from producers or manufacturers or their agents and sell the same to industrial consumers or retail traders are known as wholesale traders. The middlemen who buy goods from producers or wholesalers and sell the same to ultimate consumers are known as retail traders. Thus, retailers act as the final link in the channel of distribution. You will study in more detail about wholesalers and retailers in Unit 11.

Check Your Progress C

1 Differentiate Between mercantile agents and merchant middlemen.

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2 Distinguish between a commission agent and a del credere agent.

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3 Differentiate between a wholesaler and a retailer.

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4 Fill in the blanks.

- i) Manufacturers can use capital more profitably throughactivities.
- ii) Middlemen are specialised in performing.....functions.
- iii) Middlemen who undertake marketing functions without having title to goods are called.....
- iv) Merchant middlemen include.....and.....

5 Which of the following statements are True and which are False?

- i) Mercantile agents as well as merchant middlemen earn commission when they sell goods.
- ii) Brokers negotiate the terms of sale and purchase on behalf of either the buyer or the seller.
- iii) Retailers buy goods for resale to other traders.
- iv) The commission agent generally has the possession of goods which he sells.
- v) Auctioneers act as agents of sellers.

10.8 ROLE OF MIDDLEMEN

You have learnt that the producers use a host of middlemen bearing a variety of names.

Some people often question the wide use of middlemen and feel that it may not only delay the availability of goods but also add to the cost of distribution and hence, the price charged from customers may be higher. But it is not the case in practice. In fact, the middlemen play a very useful role in the distribution of goods by providing a variety of functions at reasonable cost. They undertake all the channel functions such as assembling, grading, packaging, storing, financing, risk-bearing, etc. We may however put them more specifically as follows:

- 1 Provide local convenience to consumers : Merchant middlemen like retailers are located at convenient shopping centres. They provide ready delivery of goods to the consumers at convenient points.
- 2 Provide field stocks : The agents and wholesalers are spread all over the country. They buy in bulk and keep the goods in stock. The retailers can approach them any time and buy their requirement. The producers, therefore, need not provide stock of their goods in different cities which would be quite a cumbersome activity involving huge investment and management problems.
- 3 Financing : The agents finance the distribution activity in many ways. They often pay cash for their bulk purchases from the producers and even advance money to them against their orders. The funding of field stocks is thus fully handled by the middlemen.
- 4 Servicing : They arrange for the after sales services and handle all kinds of complaints by the consumers locally. The manufacturer does not have to open his own service centres at all places.
- 5 Acting as channels of communication : The middlemen are in constant touch with different producers and the market. They can provide feed back about the market to the producers on the one hand and pass on information about the products to the consumers on the other.
- 6 Help in promotion : They also help the sales promotional activity through displays and salesmanship. It is literally impossible for the producers to organise such activity through any other means. Even otherwise, the middlemen being local people are more effective.

Apart from the variety of services provided by the middlemen, what makes their role more important is the fact that they handle them more efficiently and usually at a reasonable cost. They are better equipped to perform these functions because they possess special knowledge and skills, experience and contacts. The manufacturers would find it very difficult to organise the distribution network and provide the necessary funds. You should remember that the distribution of goods and provision of essential services is a gigantic task which involve huge funds and management problems. By making use of middlemen the manufacturers are freed from the botheration of distribution. They can concentrate on production activity which may be more profitable. Not only that, in case of mass consumption items it is almost impossible to the producers to organise direct sale in every nook and corner of the country.

10.9 LET US SUM UP,

Home trade consists of buying and selling or exchange of goods within the boundaries of a country. Producers and consumers are separated by place and time. Distribution system eliminates these barriers and move the goods from producers to the consumers. Channel of distribution refers to a network of institutions that perform a variety of interrelated and coordinated functions in the movement of products from producer to consumers. The functions performed in the channels of distribution are of three kinds: (i) transactional functions which are necessary for purchase and sale, (ii) logistical functions which are required for physical exchange of goods, and (iii) facilitating functions which facilitate the transactions as well as physical exchange.

Channels of distribution can be grouped into two categories: (1) direct selling by manufacturers, and (2) use of middlemen such as agents, wholesalers and retailers (indirect channel). Channel of distribution for consumer goods of daily use consists of agents or brokers, wholesalers and retailers as intermediaries. Durable consumer goods are generally distributed through showrooms of manufacturers, or through retailers called dealers. Capital goods are often sold directly by manufacturers, Sometimes distributors, dealers or agents are employed for supply of such goods.

channel). Channel of distribution for consumer goods of daily use consists of agents or brokers, wholesalers and retailers as intermediaries. Durable consumer goods are generally distributed through showrooms of manufacturers, or through retailers called dealers. Capital goods are often sold directly by manufacturers. Sometimes distributors, dealers or agents are employed for supply of such goods.

The channel suitable for distribution of a specific product depends on a number of factors such as : (i) distribution policy, (ii) characteristics of the product, (iii) characteristics of target customers, (iv) supply characteristics, (v) types of middlemen in the channel, (vi) potential volume of sales, (vii) cost of distribution, (viii) profits expected in the long-run, and (ix) channel competition.

Middlemen may be divided into two categories (1) functional middlemen, and (2) merchant middlemen. The functional middlemen perform various marketing functions without having ownership rights. Included in this category are : Factors, Brokers, Commission Agents, Del Credere Agents, and Auctioneers. Merchant Middlemen or merchants buy and sell goods for a profit on their own right and having title to the goods. There are two categories of merchant middlemen : (1) Wholesalers, and (2) Retailers.

The role of middlemen in the distribution of goods lies in the marketing functions which they perform. They are important because their specialisation enables them to perform the functions more efficiently and at a lower cost.

10.10, KEY WORDS

Assembling : Procurement and collection of goods from different sources of supply.

Auctioneer : A middleman appointed as an agent to sell goods by auction.

Branding : Selecting brand names for various products for differentiation.

Broker : A middleman who brings together the buyer and seller, and negotiate the terms and conditions of sale on behalf of either buyer or seller.

Channel of Distribution : A network of institutions involved in distribution of goods from producers to consumers.

Commission Agent : A middleman who sells goods on commission basis on behalf of the owner.

Del Credere Agent : An agent middleman authorised to sell goods on credit and who assumes the risk of bad debts.

Factor : A mercantile agent who keeps the goods of others for sale. He can sell the goods in his own name, pledge and do all acts necessary for sale.

Grading : Sorting out goods of uniform size, quality, or other specifications.

Mercantile Agent : A functional Middleman who undertakes specific functions of sale or purchase of goods as agent of the owner without having ownership right.

Merchant Middleman : A middleman such as wholesaler or retailer who buys and sells goods in his own name and performs necessary functions in that connection.

Middleman : An intermediary between the producer and the consumer to help distribution of goods.

Packing : Making packs or putting goods in containers to prevent spoilage, breakage, etc., during their transportation.

10.11 SOME USEFUL BOOKS

Amarchand D., and B. Varada Rajan, 1983. *An Introduction to Marketing*, Vikas Publishing House: New Delhi. (Chapter 2).

Bhushan, Y.K. 1987. *Fundamentals of Business Organisation & Management*, Sultan Chand & Sons: New Delhi, (Part Seven, Chapter.3).

Musselman, Vernon A., and John H. Jackson, 1985. *Inti-oduction to Modern Business*, Prentice-Hall of India: New Delhi. (Pan Four, Chapter 13).

Ramesh, M.S. 1985. *Principles and Practice of Modern Business Organisation, Administration & Management*, Kalyani Publishers: New Delhi. (Volume III, Chapter 6).

Singh, B.P. and T.N. Chhabra, 1988. *Business Organisation and Management*, Kitab Mahal : Allahabad. (Section Six, Chapter 26).

10.12 ANSWERS TO CHECK YOUR PROGRESS

- A 2 i) False ii) True iii) False iv) False v) True
3 i) Home trade ii) Home trade iii) Foreign trade iv) Foreign trade
- B 4 i) False ii) False iii) False iv) True v) True
vi) True vii) True viii) True
- C 4 i) Production ii) marketing iii) functional middlemen
iv) wholesalers, retailers
- 5 i) False ii) True iii) False iv) True v) True

10.13 TERMINAL QUESTIONS

- 1 What is a channel of distribution? Explain briefly the channels of distribution used for consumer goods and industrial goods.
- 2 Outline the factors which influence the choice of distribution channel.
- 3 Who is a middleman? Explain briefly the role and importance of middlemen in the distribution system.
- 4 Explain briefly about various types of middlemen.
- 5 Write explanatory notes on:
 - a) Direct channel
 - b) Short channel and long channel
 - c) Functions carried out by the Channel of distribution
 - d) Merchant middlemen

Note : These questions will help you to understand the unit better. Try to write answers for them. But do not send your answers to the university. These are for your practice.