Distribution: Channels of Distribution-Meaning and importance, Types of distribution channels, Functions of distribution middleman. **Retailing and Wholesaling**: Distribution Logistics; Objectives, concepts and elements and types.

Management of Distribution Channel Meaning & Need

In the field of marketing, channels of distribution indicate routes or pathways through which goods and services flow, or move from producers to consumers.

We can define formally the distribution channel as the set of interdependent marketing institutions participating in the marketing activities involved in the movement or the flow of goods or services from the primary producer to the ultimate consumer.

The prime of object of production is its consumption. The movement of product from producer to consumer is an important function of marketing. It is the obligation of the producer to make goods available at right place, at right time right price and in right quantity. The process of making goods available to the consumer needs effective channel of distribution. Therefore, the path taken by the goods in its movement is termed as channel of distribution.

Distribution channels are the network of organizations, including manufacturers, wholesalers, and retailers, that distributes goods or services to consumers. A distribution channel is the network of individuals and organizations involved in getting a product or service from the producer to the customer. Distribution channels are also known as marketing channels or marketing distribution channels.

An entrepreneur has a number of alternative channels available to him for distributing his products. These channels vary in the number and types of middlemen involved. Some channels are short as they directly link producers with customers. Whereas other channels are long and indirectly link the two through one or several middlemen.

In short, the distribution channel can be defined as 'the path through which goods and services or payment for those goods or services travel from the vendor to the consumers'. Distribution channel can be as short as a direct transaction from the vendor to the consumer, or may include several interconnected intermediaries along the way such as the followings:

- Wholesalers
- Distributors
- Agents and
- Retailers

Need for Selecting an Appropriate Channel of Distribution

It is a fact that the distribution channels are greatly required by the manufacturers. The need for selecting an appropriate channel can be understood on the basis of the parameters considered, which highlight the fact why distribution channels must be selected?

1. **Attention**

Little attention of companies to their distribution channels may damage results such as profit, brand, number of customers etc.

2. **Imaginative distribution systems**

Companies can use imaginative distribution systems to take competitive advantage. For example Dell, Flipkart.com etc. Dell is the best example of revolution in Distribution channel. Dell is selling its products directly to the consumer rather than through retailer.

3. **Difficult to Replace**

Companies can change their products, advertising and Pricing easily but not their distribution channels. It is not an easy task to change distribution channel, franchisees, dealers and retailers.

4. **Value Addition**

Distribution Channel Members can provide greater efficiency in making availability of goods to the target markets through their Contacts, Specialization, experience, and scale of operation. This can add value to the product or service at each level of distribution.

5. **Reduced number of Channel Transactions**

Marketing intermediaries or channel members help to reduce the number of channel transactions.

6. **Information**

Gathering and distributing information is very helpful.

7. **Promotion**

Communication to the consumer regarding product information and offers through advertising and promotion.

8. **Financial support**

Offering financial support for example Purchase on credit, exchange options, purchase using payment plans

9. **Other**

Financing, Physical Distribution and Risk Taking are other parameters that influence a channel selection decision Reduces Distribution cost and time.

OBJECTIVES OF CHANNELS OF DISTRIBUTIONS

The objectives of channels of distributions are discussed as follows:

1. **Receiving Fast and Accurate Feedback of Information**

In order to maintain and provide an efficient distribution system and service, a good and regular. How of relevant information is necessary, which includes inventory levels, sales trends, damage reports, service levels, cost monitoring etc.

2. ***Making the Product Readily Available to the Market Consumers***

To ensuring the product is represented in the right type of outlet or retail store is an important objective of channels of distribution. Having identified the correct marketplace for the goods, the company must make certain that the appropriate physical distribution channel is selected to achieve this objective.

3. ***Achieving a given Level of Service***

Once again, from both the supplier's and the customer's viewpoints, a specified level of service should be established, measured, and maintained. The customer normally sees this as crucial and relative performance in achieving service level requirements is often used to compare suppliers and may be the basis for subsequent buying decisions.

4. ***Enhancing the Prospect of Sales being Made***

The most appropriate factors for each product or type of retail store will be reflected in the choice of channel. The general aims are to get good positions and displays in the store; and to gain the active support of the retail salesperson, if required. The product should be "visible, accessible, and attractively displayed'.

Channel choice is affected by this objective in a number of ways:

(i) Does the deliverer arrange the merchandise in the shop?

(ii) Are special displays being utilised?

(iii) Does the product required to be installed, demonstrated or explained?

(iv) Is there a special promotion of the product is required?

5. ***Minimising Logistics and Total Costs***

Costs are very crucially significant as they are reflected in the final price of the product. The selected channel will reflect a certain cost and this cost must be assessed in relation to the type of product offered and the level of service required.

6. ***Achieving Co-Operation with Regard to any Relevant Distribution Factors***

These factors can either be from the supplier's or the receiver's point of view and include minimum order sizes, unit load types, product handling characteristics, materials handling aids, delivery access (e.g., vehicle size), and delivery time constraints, etc.

Distribution Channels

A distribution channel is a chain of businesses or intermediaries through which a good or service passes until it reaches the final buyer or the end consumer. Distribution channels can include wholesalers, retailers, distributors, and even the Internet.

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.

Distribution channels are part of the downstream process, answering the question "How do we get our product to the consumer?" This is in contrast to the upstream process, also known as the supply chain, which answers the question "Who are our suppliers?"

Role 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.

(i) 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:

(ii) Logistics and Physical Distribution

Marketing channels are responsible for assembly, storage, sorting, and transportation of goods from manufacturers to customers.

(iii) Facilitation

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

(iv) 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.

(v) 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.

(vi) 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.

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.

	SHORT CHANNELS	LONG CHANNELS
MARKET CHARACTERISTICS	BUSINESS USERS GEOGRAPHICALLY CONCENTRATED EXTENSIVE TECHNICAL KNOWLEDFE AND REGULAR SERVICING REQUIRED LARGE ORDERS	CONSUMERS GEOGRAPHICALLY DISPERSED LITTLE TECHNICAL KNOWLEDFE AND REGULAR SERVICING NOT REQUIRED SMALL ORDERS
PRODUCT CHARACTERISTICS	PERISHABLE COMPLEX EXPENSIVE	DURABLE STANDARDIZED INEXPENSIVE
COMPETITION CHARACTERISTICS	COMPETITOR USES THE DIRECT CHANNELS AND THE MANUFACTURER IS SATISFIED WITH ITS PERFORMANCE OR COMPETITOR USES INDIRECT CHANNELS AND THE MANUFACTURER THINKS CHOOSING THIS CHANNEL WOULD BE MORE BENEFICIAL	COMPETITOR USES THE INDIRECT CHANNELS AND THE MANUFACTURER IS SATISFIED WITH ITS PERFORMANCE OR COMPETITOR USES THE DIRECT CHANNEL AND THE MANUFACTURER THINKS CHOOSING THIS CHANNEL WOULD BE MORE BENEFICIAL
COMPANY CHARACTERISTICS	CHANNEL CONTROL IMPORTANT BROAD PRODUCT LINE MANUFACTURER HAS ADEQUATE RESOURCES TO PERFORM CHANNEL FUNCTIONS	CHANNEL CONTROL NOT IMPORTANT LIMITED PRODUCT LINE MANUFACTURER LACKS ADEQUATE RESOURCES TO PERFORM CHANNEL FUNCTIONS

TYPES OF DISTRIBUTION CHANNELS

While a distribution channel may seem endless at times, there are three main types of channels, all of which include the combination of a producer, wholesaler, retailer, and end consumer.

1. The **first channel** is the longest because it includes all four: producer, wholesaler, retailer, and consumer. The wine and adult beverage industry is a perfect example of this long distribution channel. In this industry thanks to laws born out of prohibition a winery cannot sell directly to a retailer. It operates in the three-tier system, meaning the law requires the winery to first sell its product to a wholesaler who then sells to a retailer. The retailer then sells the product to the end consumer.

2. The **second channel** cuts out the wholesaler where the producer sells directly to a retailer who sells the product to the end consumer. This means the second channel contains only one intermediary. Dell, for example, is large enough to sell its products directly to reputable retailers such as Best Buy.

3. The **third and final channel** is a direct-to-consumer model where the producer sells its product directly to the end consumer. Amazon, which uses its own platform to sell Kindles to its customers, is an example of a direct model. This is the shortest distribution channel possible, cutting out both the wholesaler and the retailer.

Choosing the Right Distribution Channel

Not all distribution channels work for all products, so it's important for companies to choose the right one. The channel should align with the firm's overall mission and strategic vision including its sales goals.

The method of distribution should add value to the consumer. Do consumers want to speak to a salesperson? Will they want to handle the product before they make a purchase? Or do they want to purchase it online with no hassles? Answering these questions can help companies determine which channel they choose.

Secondly, the company should consider how quickly it wants its product(s) to reach the buyer. Certain products are best served by a direct distribution channel such as meat or produce, while others may benefit from an indirect channel.

If a company chooses multiple distribution channels, such as selling products online and through a retailer, the channels should not conflict with one another. Companies should strategize so one channel doesn't overpower the other.

- A distribution channel represents a chain of businesses or intermediaries through which the final buyer purchases a good or service.
- Distribution channels include wholesalers, retailers, distributors, and the Internet.
- A distribution channel, also known as placement, is part of a company's marketing strategy, which includes product, promotion, and price.
- In a direct distribution channel, the manufacturer sells directly to the consumer. Indirect channels involve multiple intermediaries before the product ends up in the hands of the consumer.

Types of Intermediaries

Unless customers are buying a product directly from the company that makes it, sales are always facilitated by one or more marketing intermediaries, also known as middlemen. Marketing intermediaries do much more than simply take a slice of the pie with each transaction. Not only do they give customers easier access to products, they can also streamline a manufacturer's processes. Four types of traditional intermediaries include agents and brokers, wholesalers, distributors and retailers.

Types of Intermediaries

1. **Wholesalers**

Wholesalers typically are independently owned businesses that buy from manufacturers and take title to the goods. These intermediaries then resell the products to retailers or organizations. If they're full-service wholesalers, they provide services such as storage, order processing and delivery, and they participate in promotional support. They generally handle products from several producers but specialize in particular products. Limited-service wholesalers offer few services and often serve as drop shippers where the retailer passes the customer's order information to the wholesaler, who then packages the product and ships it directly to the customer.

2. **Retailers**

Retailers work directly with the customer. These intermediaries work with wholesalers and distributors and often provide many different products manufactured by different producers all in one location. Customers can compare different brands and pick up items that are related but aren't manufactured by the same producer, such as bread and butter. Purchasing bread or medications directly from a manufacturer or pharmaceutical company would be time-consuming and expensive for a customer. But buying these products from a local retail "middleman" is simple, quick and convenient.

3. **Distributors**

Distributors are generally privately owned and operated companies, selected by manufacturers, that buy product for resale to retailers, similar to wholesalers. These intermediaries typically work with many businesses and cover a specific geographic area or market sector, performing several functions, including selling, delivery, extending credit and maintaining inventory. Although main roles of distributors include immediate access to goods and after-sales service, they typically specialize in a narrower product range to ensure better product knowledge and customer service.

4. **Agents and Brokers**

Agents and brokers sell products or product services for a commission, or a percentage of the sales price or product revenue. These intermediaries have legal authority to act on behalf of the manufacturer or producer. Agents and brokers never take title to the products they handle and perform fewer services than wholesalers and distributors. Their primary function is to bring buyers and sellers together. For example, real estate agents and insurance agents don't own the items that are sold, but they receive a commission for putting buyers and sellers together. Manufacturers' representatives that sell several non-competing products and arrange for their delivery to customers in a certain geographic region also are agent intermediaries.

The Role of Intermediaries

(i) Purchasing

Wholesalers purchase very large quantities of goods directly from producers or from other wholesalers. By purchasing large quantities or volumes, wholesalers are able to secure significantly lower prices.

Imagine a situation in which a farmer grows a very large crop of potatoes. If he sells all of the potatoes to a single wholesaler, he will negotiate one price and make one sale. Because this is an efficient process that allows him to focus on farming (rather than searching for additional buyers), he will likely be willing to negotiate a lower price. Even more important, because the wholesaler has such strong buying power, the wholesaler is able to force a lower price on every farmer who is selling potatoes.

The same is true for almost all mass-produced goods. When a producer creates a large quantity of goods, it is most efficient to sell all of them to one wholesaler, rather than negotiating prices and making sales with many retailers or an even larger number of consumers. Also, the bigger the wholesaler is, the more likely it will have significant power to set attractive prices.

(ii) Warehousing and Transportation

Once the wholesaler has purchased a mass quantity of goods, it needs to get them to a place where they can be purchased by consumers. This is a complex and expensive process. McLane Company operates eighty distribution centers around the country. Its distribution center in Northfield, Missouri, is 560,000 square feet big and is outfitted with a state-of-the art inventory tracking system that allows it to manage the diverse products that move through the center. It relies on its own vast trucking fleet to handle the transportation.

(iii) Grading and Packaging

Wholesalers buy a very large quantity of goods and then break that quantity down into smaller lots. The process of breaking large quantities into smaller lots that will be resold is called bulk breaking. Often this includes physically sorting, grading, and assembling the goods. Returning to our potato example, the wholesaler would determine which potatoes are of a size and quality to sell individually and which are to be packaged for sale in five-pound bags.

(iv) Risk Bearing

Wholesalers either take title to the goods they purchase, or they own the goods they purchase. There are two primary consequences of this, both of which are both very important to the distribution channel. **First**, it means that the wholesaler finances the purchase of the goods and carries the cost of the goods in inventory until they are sold. Because this is a tremendous expense, it drives wholesalers to be accurate and efficient in their purchasing, warehousing, and transportation processes.

Second, wholesalers also bear the risk for the products until they are delivered. If goods are damaged in transport and cannot be sold, then the wholesaler is left with the goods and the cost. If there is a significant change in the value of the products between the time of the purchase from the producer and the sale to the retailer, the wholesaler will absorb that profit or loss.

(v) Marketing

Often, the wholesaler will fill a role in the promotion of the products that it distributes. This might include creating displays for the wholesaler’s products and providing the display to retailers to increase sales.

The wholesaler may advertise its products that are carried by many retailers.

Wholesalers also influence which products the retailer offers. For example, McLane Company was a winner of the 2016 Convenience Store News Category Captains, in recognition for its innovations in providing the right products to its customers. McLane created unique packaging and products featuring movie themes, college football themes, and other special occasion branding that were designed to appeal to impulse buyers.

They also shifted the transportation and delivery strategy to get the right products in front of consumers at the time they were most likely to buy. Its convenience store customers are seeing sales growth, as is the wholesaler.

(vi) Distribution

As distribution channels have evolved, some retailers, such as Walmart and Target, have grown so large that they have taken over aspects of the wholesale function. Still, it is unlikely that wholesalers will ever go away.

Most retailers rely on wholesalers to fulfill the functions that we have discussed, and they simply do not have the capability or expertise to manage the full distribution process. Plus, many of the functions that wholesalers fill are performed most efficiently at scale.

Wholesalers are able to focus on creating efficiencies for their retail channel partners that are very difficult to replicate on a small scale.