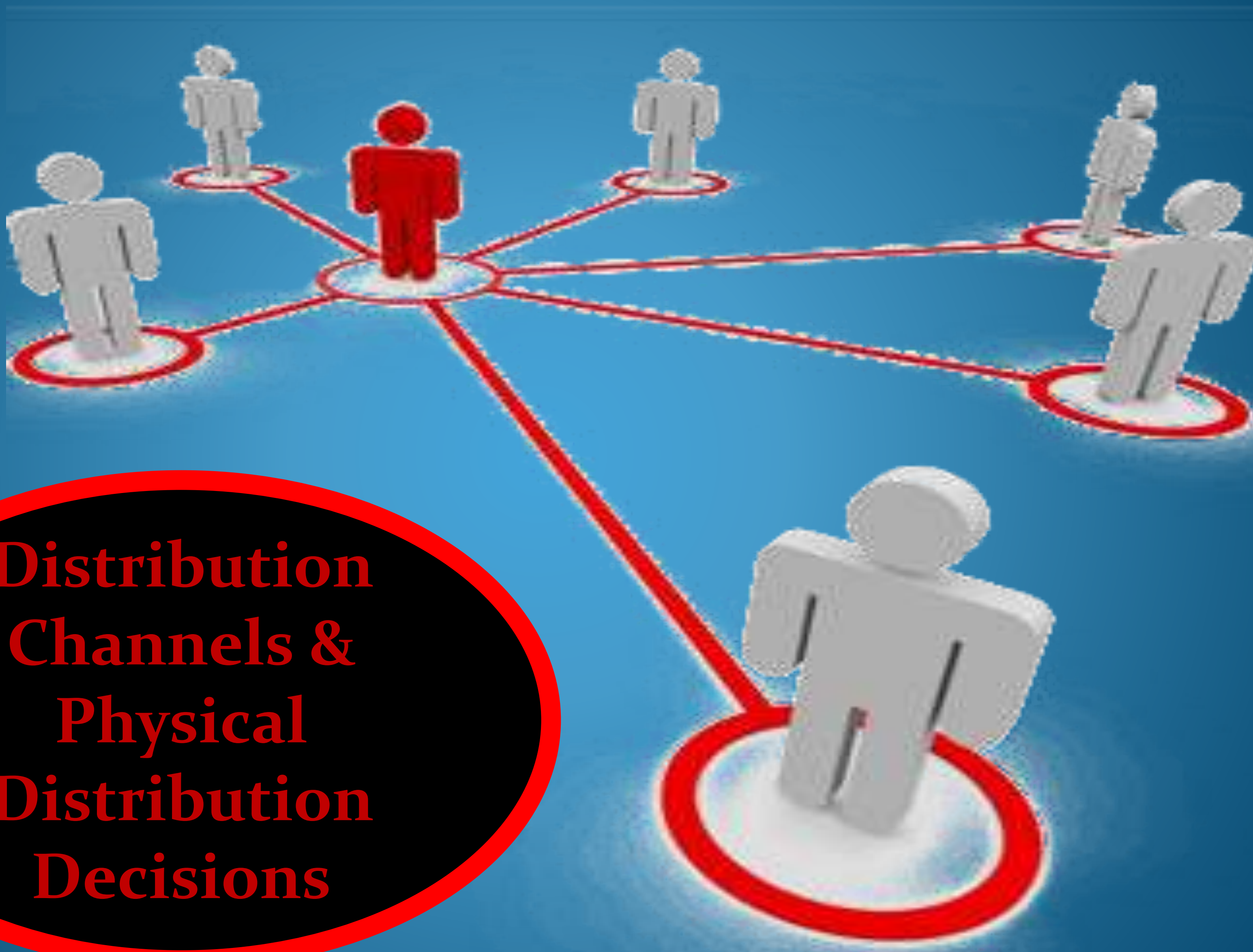
Distribution Channels & Physical Distribution Decisions



Distribution of goods or services from the factory or the manufacturing unit to the consumer provides strategic advantage to the company.

Earlier, people used to wait to get the products but now companies make them available as and when the customer demands.

This is an opportunity as well as a challenge to the organizations to provide the right product at the right place in the right time.

Functions of Distribution Channels:

1. Sorting:

Middlemen obtain the supplies of goods from various suppliers and sort them out into similar groups on the basis of size, quality etc.

2. Accumulation:

In order to ensure a continuous supply of goods, middlemen maintain a large volume of stock.

3. Allocation:

It involves packing of the sorted goods into small marketable lots like 1Kg, 500 gms, 250 gms etc.

4. Assorting:

Middlemen obtain a variety of goods from different manufacturers and provide them to the customers in the combination desired by them.

5. Product Promotion:

Sales promotional activities are mostly performed by the producer but sometimes middlemen also participate in these activities like special displays, discounts etc.

6. Negotiation:

Middlemen negotiate the price, quality, guarantee and other related matters about a product with the producer as well as customer.

7. Risk Taking:

Middlemen have to bear the risk of distribution like risk from damage or spoilage of goods etc. when the goods are transported from one place to another or when they are stored in the god-owns.

1. Direct Channel or Zero Level Channels:

When the producer or the manufacturer directly sells the goods to the customers without involving any middlemen, it is known as direct channel or zero level channel. It is the simplest and the shortest mode of distribution. Selling through post, internet or door to door selling etc. are the examples of this channel.

Methods of Direct Channel are:

(a) Door to door selling
(b) Internet selling
(c) Mail order selling
(d) Company owned retail outlets
(e) Telemarketing

2. Indirect Channels:

When a manufacturer or a producer employs one or more middlemen to distribute goods, it is known as indirect channel.

Following are the main forms of indirect channels:

(a) Manufacturer-Retailer-Consumer (One Level Channel):

This channel involves the use of one middleman i.e. retailer who in turn sells them to the ultimate customers. It is usually adopted for specialty goods. For example Tata sells its cars through company approved retailers.

(b) Manufacturer-Wholesaler-Retailer-Customer (Two level channels):

Under this channel, wholesaler and retailer act as a link between the manufacturer and the customer. This is the most commonly used channel for distributing goods like soap, rice, wheat, clothes etc.

(c) Manufacturer-Agent-Wholesaler-Retailer-Consumer (Three level channels):

This level comprises of three middlemen i.e. agent, wholesaler and the retailer. The manufacturers supply the goods to their agents who in turn supply them to wholesalers and retailers. This level is usually used when a manufacturer deal in limited products and yet wants to cover a wide market.

Channel Management Decisions

Marketers should consider various factors before deciding the particular type of channel. It may be organizational or competitive factors. The type of goods to be transported and stored will decide the length and intensity of channel. To decide on the particular channels, marketer will have to take into account the following factors.

1. ***Understanding the customer profile:*** Purchasing habits differ from individual to individual. Individuals who face shortage of time would like to purchase on the net (direct channel) and those who have abundant time would like to go through the shopping experience. Some of them would like to have variety of goods, while others want unique or specialized products.

Hence marketers should understand who are his customers? How do they purchase and how often they purchase? For example, customers don’t like to travel half a kilometer to purchase a shampoo sachet, but they don’t mind travelling two kilometers while purchasing durable goods.

2. Determine the objectives on which channel is to be developed.

a. Reach: Company would like to make the goods available in most of the retail outlets. So it, will adopt intensive distribution channel.

b. Profitability: Company wants to reduce the cost in the channels and enhance their profitability. It will restructure the channel to optimum level so that it can reduce the cost and increase the profit.

c. Differentiation: Company positions their products differently. When most of the industry players follow conventional system, company goes with new format of channels. For example, all computer manufacturers were adopting dealer-retailer channel to sell their products, but Dell started selling its product on the internet.

3. Identify type of channel members:

Merchants, agents and resellers are some intermediaries involved in the distribution. Merchants are those who buy the product, take title and resell the merchandise. Agents will find the customers, negotiate with them, but do not take the title of the product. Facilitators are the people who aid the distribution but do not negotiate or take the title of the product.

Retailing

The major factors which drive the retail boom are change in consumer profile and demographics, increase in the number of international brands available in the Indian market, economic implications of the government, increasing urbanization, credit availability, improvement in the infrastructure, increasing investments in technology and real estate.

Characteristics of retailing

i. *Direct interaction with customers.* Retailer is the final link between company and customer. Retailer understands the need of the customer and provides the proper solution to him. For example, neighborhood grocery store person knows his customer profile better. He reminds the customer of what to purchase and provides credit.

ii. *Purchased in small quantity:* Customer purchases small quantity of merchandise at the retail store. Even if customer purchases less quantity he will purchase it frequently. This has led to better relationship between customer and retailer.

iii. *Tool of marketing communication:* Companies use retailer location for point of purchase displays. They also encourage retailer to promote the products through word of mouth communication.

Functions of retailing

i. *Sorting:* Retailers arrange the items in proper order so that customer can easily identify the goods or services that he needs.

ii. *Breaking bulk:* The process of unpacking big packets into small packets. Retailer will perform this function as customer may not be able to purchase large quantity of goods and services.

iii. *Holding stock*: Retailer works as storage facility to organizations. Retailer holds inventory to meet the day to day needs of consumer.

iv. *Channels of communication:* Retailer promotes the company product through word of mouth communication. The retailer location is also used for point of purchase display.

v. *Transportation:* Retailer undertakes door delivery order in case of durable goods. This feature is now adopted by the small grocery stores also.

Type of Retailing

A. Store retailing:

The mode of retailing where a store is essential in a particular location to do business. Store retailing can be performed in different formats. They are

1) ***Specialty store:*** The stores carry large amount of merchandise but in limited product lines like Textile store or furniture store. For example, Tanishq jewelry retail store.

2) ***Department store:*** In this retail format, apparel, home furnishing and consumables goods and services are sold. Each of the formats is considered as a different department and managed in the retail store. For example, Shoppers Stop of Raheja group.

3) ***Supermarkets:*** According to Philip Kotler supermarkets are a relatively large, low cost, low margin, high volume, self service operation designed to serve the consumer's total needs for food and household products. For example, DMart

4) ***Convenience store*:** These stores are very near to customer residence; usually carry or hold day to day products of high turnover at premium price. For example, Reliance Fresh

5) ***Discount store*:** These stores sell products at low prices with low margin. The store achieves their profit by generating high volumes. Subhiksha, a south India based retailer follows this format.

6) ***Off price retailers:*** This type of retailer buys the goods at less than wholesale prices. These products are sold at lesser than retail prices.

7) ***Super stores*:** These are very large stores where customer can purchase food and non food products. These retail outlets have huge space and carry large merchandise. For example, Reliance Mart.

B. Non store retailing: The mode of retailing where a company uses electronic media or direct selling medium to sell their products. For example, direct selling, Telemarketing, Automatic vending, online retailing and direct marketing.

According to Philip Kotler wholesaling is 'All activities involved in selling goods and services to those buying for resale or business use'.

Functions of Wholesaler

1) **Selling:** Wholesalers have well defined network of retailers. Hence, they can sell the company product in the large area.

2) **Bulk Breaking:** Wholesalers buy the product in large quantities and send in small quantities to retailers.

3) **Warehousing:** Wholesalers have huge space to store the goods. They help in reducing the inventory cost to the company.

4) Transportation: Some companies have agreements with wholesalers on transporting the goods to retailers.

5) Credit and risk taking: Wholesalers provide credit to the retailers. By doing this they take the risk of finance as well as products.

6) Information: Wholesalers provide the information to company on retailers' purchase, retail market characteristics.

Types of wholesalers

Merchant wholesalers. These are independently owned wholesalers who take the risk of possessing the titles. Often they are classified on the basis of product line. Full service wholesalers perform all the above mentioned functions. Limited service wholesalers offer controlled services to retailers and customers.

Brokers and agents**:** These wholesalers do not take the title of goods and perform few functions. Brokers have knowledge of buyer and seller, and bring both to the negotiation. Agents represent the company or retailer or customer on a permanent basis.