Notes – Sales Management

Unit-4

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**UNIT-4**

# Different Types of 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.

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?”

A distribution channel is the path by which all goods and services must travel to arrive at the intended consumer. Conversely, it also describes the pathway payments make from the end consumer to the original vendor. Distribution channels can be short or long, and depend on the amount of intermediaries required to deliver a product or service.

Goods and services sometimes make their way to consumers through multiple channels—a combination of short and long. Increasing the number of ways a consumer is able to find a good can increase sales. But it can also create a complex system that sometimes makes distribution management difficult. Longer distribution channels can also mean less profit each intermediary charges a manufacturer for its service.

Channels are broken into two different forms—direct and indirect. A direct channel allows the consumer to make purchases from the manufacturer while an indirect channel allows the consumer to buy the good from a wholesaler or retailer. Indirect channels are typical for goods that are sold in traditional brick-and-mortar stores.

Generally, if there are more intermediaries involved in the distribution channel, the price for a good may increase. Conversely, a direct or short channel may mean lower costs for consumers because they are buying directly from the manufacturer.

### **Different types of channel of distribution are as follows:**

Manufacturers and consumers are two major components of the market. Intermediaries perform the duty of eliminating the distance between the two. There is no standardised level which proves that the distance between the two is eliminated.

Based on necessity the help of one or more intermediaries could be taken and even this is possible that there happens to be no intermediary. Their description is as follows:

**(A) Direct Channel or Zero Level Channels**

When the manufacturer instead of selling the goods to the intermediary sells it directly to the consumer then this is known as Zero Level Channel. Retail outlets, mail order selling, internet selling and selling

**(B) Indirect Channels**

When a manufacturer gets the help of one or more middlemen to move goods from the production place to the place of consumption, the distribution channel is called indirect channel. Following are the main types of it:

**1. One Level Channel**

In this method an intermediary is used. Here a manufacturer sells the goods directly to the retailer instead of selling it to agents or wholesalers. This method is used for expensive watches and other like products. This method is also useful for selling FMCG (Fast Moving Consumer Goods).

**2. Two Level Channel**

In this method a manufacturer sells the material to a wholesaler, the wholesaler to the retailer and then the retailer to the consumer. Here, the wholesaler after purchasing the material in large quantity from the manufacturer sells it in small quantity to the retailer.

Then the retailers make the products available to the consumers. This medium is mainly used to sell soap, tea, salt, cigarette, sugar, ghee etc.

**3. Three Level Channel**

Under this one more level is added to Two Level Channel in the form of agent. An agent facilitates to reduce the distance between the manufacturer and the wholesaler. Some big companies who cannot directly contact the wholesaler, they take the help of agents. Such companies appoint their agents in every region and sell the material to them.

Then the agents sell the material to the wholesalers, the wholesaler to the retailer and in the end the retailer sells the material to the consumers.

# Factors affecting the choice of channel

**(A) Considerations Related to Manufacturer/Company**

1. **Goodwill:**

Manufacturer’s goodwill also affects the selection of channel of distribution. A manufacturer enjoying good reputation need not depend on the middlemen as he can open his own branches easily.

1. **Desire to control the channel of Distribution:**

A manufacturer’s ambition to control the channel of distribution affects its selection. Consumers should be approached directly by such type of manufacturer. For example, electronic goods sector with a motive to control the service levels provided to the customers at the point of sale are resorting to company owned retail counters.

1. **Financial Strength:**

A company which has a strong financial base can evolve its own channels. On the other hand, financially weak companies would have to depend upon middlemen.

**(B) Considerations Related to Government**

Considerations related to the government also affect the selection of channel of distribution. For example, only a license holder can sell medicines in the market according to the law of the government.

In this situation, the manufacturer of medicines should take care that the distribution of his product takes place only through such middlemen who have the relevant license.

**(C) Considerations Related to Product**

When a manufacturer selects some channel of distribution he/she should take care of such factors which are related to the quality and nature of the product. They are as follows:

1. **Unit Value of the Product:**

When the product is very costly it is best to use small distribution channel. For example, Industrial Machinery or Gold Ornaments are very costly products that are why for their distribution small distribution channel is used. On the other hand, for less costly products long distribution channel is used.

1. **Standardised or Customised Product:**

Standardised products are those for which are pre-determined and there has no scope for alteration. For example: utensils of MILTON. To sell this long distribution channel is used.

On the other hand, customised products are those which are made according to the discretion of the consumer and also there is a scope for alteration, for example; furniture. For such products face-to-face interaction between the manufacturer and the consumer is essential. So for these Direct Sales is a good option.

1. **Perishability:**

A manufacturer should choose minimum or no middlemen as channel of distribution for such an item or product which is of highly perishable nature. On the contrary, a long distribution channel can be selected for durable goods.

1. **Technical Nature:**

If a product is of a technical nature, then it is better to supply it directly to the consumer. This will help the user to know the necessary technicalities of the product.

**(D) Considerations Related to Market**

**Market considerations are given below:**

1. **Number of Buyers:**

If the number of buyer is large then it is better to take the services of middlemen for the distribution of the goods. On the contrary, the distribution should be done by the manufacturer directly if the number of buyers is less.

1. **Types of Buyers:**

Buyers can be of two types: General Buyers and Industrial Buyers. If the more buyers of the product belong to general category then there can be more middlemen. But in case of industrial buyers there can be less middlemen.

1. **Buying Habits:**

A manufacturer should take the services of middlemen if his financial position does not permit him to sell goods on credit to those consumers who are in the habit of purchasing goods on credit.

1. **Buying Quantity:**

It is useful for the manufacturer to rely on the services of middlemen if the goods are bought in smaller quantity.

1. **Size of Market:**

If the market area of the product is scattered fairly, then the producer must take the help of middlemen.

**(E) Others**

1. **Cost:**

A manufacturer should select such a channel of distribution which is less costly and also useful from other angles.

1. **Availability:**

Sometimes some other channel of distribution can be selected if the desired one is not available.

1. **Possibilities of Sales:**

Such a channel which has a possibility of large sale should be given weight age.

# Types of Middleman and their Characteristics

The distribution channel starts with the producer and ends with the consumer. In between, there are many intermediaries or middlemen. These middlemen are of two types:

* Merchant middlemen
* Agent middlemen

A merchant middleman is one who takes title to the goods and later carries out sales. An agent middleman, on the other hand, does not take title to goods. He simply gets orders from the buyers and passes on the same to the producers.

The various kinds of middlemen in the market are:

1. **Wholesalers:** They are the people who buy in bulk from the producers and sell in small quantities to the retailers.
2. **Retailers:** They are the people who buy in small quantities from the wholesalers and sell to the ultimate consumers.
3. **Agents:** They are the middlemen who do not take any title to goods. They render all services required in marketing. They represent either the seller or the buyer. They receive commission for their work.
4. **Brokers:** Like agents, brokers also represent either the buyer or the seller. They do not usually have physical control over the goods in which they deal. Example: share brokers. They get ‘brokerage’ for their work.
5. **Dealers:** They are the business houses that resell goods. Example: Quicker
6. **Distributors:** They are the same as wholesalers.
7. **Jobbers:** They are associated with stock exchanges. A jobber deals in certain securities. He transacts only with a broker and does not deal directly with the public.
8. **Branches:** These are establishments maintained by manufacturers at different places to promote sales. Example: Adidas Shoe company.
9. **Consumer Co-operatives:** These are owned and managed by the ultimate consumers. Such cooperatives buy and distribute goods mainly to the members.
10. **Company show room:** A company may run its own show room to sell its goods. Example: Philips, BPL and Thomson have their own showrooms in Chennai.
11. **Facilitating Agencies:** These agencies are directly or indirectly involved in the performance of certain marketing functions. These are transport organizations, warehouses, banks, insurance companies and so on.

# Physical Distribution System: Objective and Decisions Area

Physical distribution is concerned with the physical movement of the goods from the producer to the consumer. It is an important part of marketing activity and a major component of marketing mix. It includes all those activities which help in efficient movement of goods from producer to consumer, such as trans­portation, warehousing, material handling, inventory control, order processing, market forecasting, packaging, plant and warehouse location and customer ser­vice.

Philip Kotler has defined physical distribution as, “Physical distribution involves planning, implementing and controlling the physical flow of materials and final goods from the point of origin of use to meet consumer needs at a profit.”

According to William J. Stanton, “Physical distribution involves the man­agement of physical flow of products and establishment and operation of flow systems.”

Physical distribution is thus, management of the physical flow of products and management and operation of the flow system. It is a process of managing the movement of the goods.

### **Objectives of Physical Distribution:**

Physical distribution has two broad objectives viz. consumer satisfaction and profit maximisation. Apart from these, there are other objectives too. A sat­isfied consumer is the biggest asset that a company has. A firm can provide sat­isfaction to consumers by making available right quantity of right goods at right place and time, at lowest costs. Prompt and dependable distribution enhances consumer satisfaction.

At the same time, by offering better service at lower price of the product, the firm can attract additional consumers and make more prof­its. This can be done by improving the efficiency and effectiveness of physical distribution activities, firm can bring in economy which will have an effect on profit margin i.e. by lowering the physical distribution costs, profit position can be improved.

### **Its importance can be judged from following points:**

### **(A) Creating Time and Place Utility:**

Physical distribution activities help in creating time and place utility. This is done through transportation and warehousing. Transportation system creates place utility as it makes available the goods at the right place where they are required. Warehousing creates time utility by storing the goods and releasing them when they are required.

### **(B) Helps in Reducing Distribution Cost:**

Physical distribution cost account for a major part of the price of the product. If these costs are handled systematically, decrease in costs of product can be there. Proper and systematic planning of transportation schedules and routes, warehousing location and operation, material handling, order processing, etc. can easily bring in cost economies.

### **(C) Helps in Stabilisation of Price:**

Physical distribution helps in maintaining stable prices. Even customers expect price stability over a period of time. Proper use of transportation and warehousing facilities can help in matching demand with supply and thus ensure stabilisation of price.

### **(D) Improved Consumer Services:**

Consumer service in physical distribution means making products in right quantity available at right time and right place i.e. place where customer needs.