UNIT –V

Marketing channels -Need and importance – Classification – Types of Intermediaries – Wholesalers – Functions – Retailers – Functions - Physical distribution – Elements of physical distribution (logistics).

Definition

According to American Marketing Association, "A channel of distribution, or marketing channel, is the structure of intra-company organisation units and extra-company agents and dealers, wholesale and retail through which a commodity, product or service is marketed."

According to Richard M. Clewelt, "A channel is the pipe line through which a product flows on its way to the consumer. The manufacturer puts his product into the pipe line or marketing channel and various marketing people move it along to the consumer at the other end of the channel."

According to Beckmen and others, "The course taken in the transfer of the title to a commodity constitutes its channel of distribution. It is the route taken by the title to a product in its passage from its first owner, the agricultural producer, or manufacturer, as the case may be, to the last owner, the ultimate consumer or the business user."

According to John A. Howard, "Marketing channels are the combination of agencies through which the seller, who is often though not necessarily the manufacturer, markets his products to the ultimate user."

Marketing channel may be defined as "a pathway composed of intermediaries, also called middlemen, who perform such functions as needed to ensure smooth flow of goods and services from the manufacturing ends to the consuming ends in order to achieve marketing of the produce of a company."

The distribution channel is the movement of goods and services between the point of production and the point of consumption through organisation, that performs a variety of marketing activities. The major participants in the distribution channel are : producers, intermediaries and consumers.

According to A. W. Shaw, "Distribution is the application of motion to materials as they move from the times, places, forms and conditions where they have no value, to the times, places, forms and conditions where they have value."

Function of Marketing Channel (Philips Kotler)

The functions of the members of marketing channel are:

1. **Research :** The gathering of information necessary for planning and facilitating exchange.
2. **Promotion :** The development and dissemination of persuasive communication about the offer.
3. **Contact :** The searching out and communicating with prospective buyers.
4. **Matching :** The shaping and filling of the offer to the buyer's requirements. This includes such activities as manufacturing, grading, assembling and packaging.
5. **Negotiating :** The attempts to reach final agreement on price and other terms of the offer, so that transfer of ownership or possession can be effected.
6. **Physical distribution :** The transporting and storing of the goods.
7. **Financing :** The acquisition and dispersal of funds to cover the costs of the channel work.
8. **Risk taking :** The assumption of risks in connection with carrying out the channel work.

GENERAL FUNCTIONS OF CHANNEL DISTRIBUTION

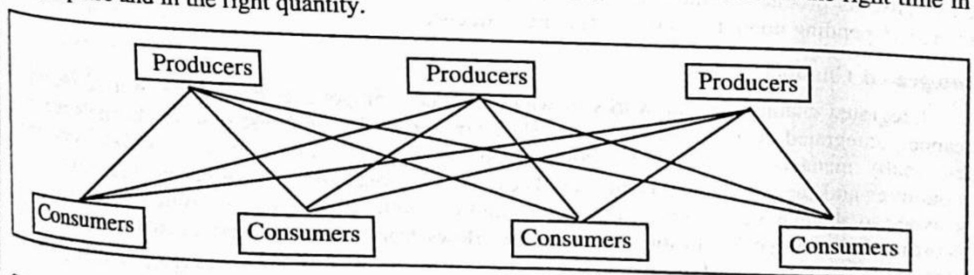
1. To distribute goods and services, with minimum losses.
2. To establish market for new products.
3. To offer after sale services to customers.
4. To facilitate maximum exposure of goods in the markets.

5. To establish brand loyalty.
6. To maintain competitive advantage to producucers.
7. To match goods and to the requirements of markets.
8. To persuade and influence the prospective buyers.,
9. To undertake all physical distribution functions.
10. To provide feed-back information.
11. To conduct market research.
12. To increase customer confidence.
13. To help in sorting processes.
14. To care all the flows involved in the distribution.
15. "**RIGHT** quantity of the **RIGHT** product/service to the **RIGHT** place in the **RIGHT** conditions at the **RIGHT** cost and at the **RIGHT** time with the **RIGHT** impression." (7 R's)

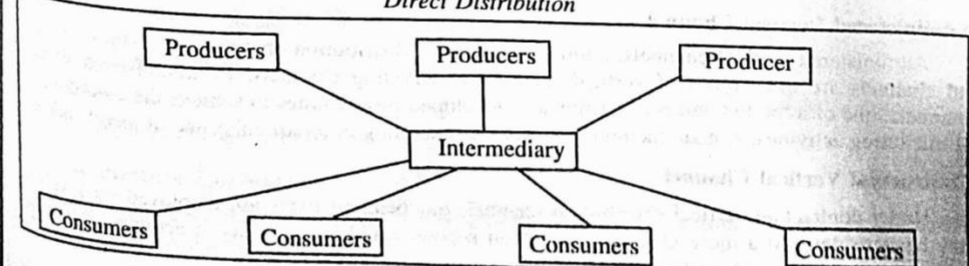
Importance of Channel of Distribution

A channel of distribution for a product is the route taken by the title to goods as they move from the producer to the ultimate consumer or industrial user. It brings maximum profit to all institutions concerned. The channel of distribution is very important to the producer and the consumer. The consumers are scattered in many places. The producer is situated in one place. There is a big gap between the producer and the consumer. The gap between the producer and the consumer is shrunk by the channel of distribution. Hence the channel of distribution is the connecting link between the producer and the consumer to sell the products.

The middleman in the channel of distribution (1) collects the outputs of various products, (2) subdivides the products according to the needs of the consumers and gathers this in the assortment wanted, and (3) disperses this assortment to consumers or industrial buyers. The middlemen are specialists in concentration, equalisation and dispersions. They create time, place, form and possession utilities. The channel of distribution helps in making products available at the right time in the right place and in the right quantity.



Direct Distribution



Indirect Distribution

Marketing and Distribution

Marketing is a comprehensive term which includes distribution also. Marketing is the process of discovering and translating consumer needs and wants into product and service specifications, creating demand for the products and services, and then in turn expanding this demand. Distribution is a function to distribute or sub-divide the producer's goods on a geographical basis to various specific markets.

Types of Channels of Distribution

Channels of distribution can be classified into Non-integrated and Integrated. The other name for Non-integrated channel is Individualistic or Conventional Market channel.

Distribution Channels

- Non-integrated
  - Direct
  - Indirect
- Integrated
  - Vertical
    - Administered
    - Contractual
    - Corporate
  - Horizontal

Non-integrated Channel (Conventional Marketing Channel)

In this channel each enterprise is a separately owned and operated concern. Manufacturers, wholesalers and retailers bargain with each other, negotiate over terms of sale and otherwise behave autonomously. In conventional marketing channels there are two types of channels and they are direct channel and indirect channel.

In the **direct or short channel,** the company sells the products to consumers directly. There are no intermediaries. In **indirect channel or long channel** the company uses intermediaries to channelise its products to the consumers. In the indirect channel, the company has more than one choice, depending upon the length of channel sequence.

Integrated Channel

Integrated channels are networks in which channel components participate in a co-ordinated manner. Integrated channels may be vertical or horizontal. Vertical distribution channels are professionally managed and centrally programmed networks, pre-engineered to achieve operating economies and maximum market impact. These are "rationalized and capital-intensive networks, designed to achieve technological, managerial and promotional economies through the integration, co-ordination and synchronization of marketing flows from points of production to point of ultimate use."

Administered Vertical Channel

Administered vertical channels, contractual vertical distribution channels and corporate vertical channels are three types of vertical integrated marketing channels. In administered vertical channels, one of a limited number of firms use developed programmes to achieve the co-ordination of marketing activities. A manufacturer controls the marketing of a particular line of merchandise.

Contractual Vertical Channel

Under contractual vertical distribution channel, independent firms are employed on a voluntary basis to develop a more efficient system on a contractual basis, so as to achieve systematic economies and increased market impact.

Corporate Vertical Channel

Under corporate vertical distribution channel, channel components are owned and operated by one organisation. The firms own both production and distribution facilities, e.g., Bata, Tata etc.

Horizontal Marketing System

Horizontal marketing system, also known as symbiotic marketing, occurs when two or more related or unrelated companies working at the same level come together to exploit marketing opportunities. By coming together they have the option to combine their capital, production capabilities, marketing strengths to gain substantial advantage by each company working alone. This kind of joining forces is viewed as symbiotic relationship and can be between non-competitors as well as competitors. This arrangement can be on a temporary or permanent basis. For example: Auto manufacturers have joined hands with finance institutions to finance customers, TVs. Whirlpool and Onida joined hands to market washing machines etc.

Multichannel Marketing System

Multichannel system, also known as *hybrid channel*, involves different group of intermediaries. The system is also known as **dual distribution**, when a company uses two or more channels to distribute same products, use telemarketing to reach medium size customers, direct mail selling to small customers, retailers sell to personal consumers, and also uses online selling.

The companies can gain benefits because of adding more channels: (a) Increased market coverage, (b) Lower channel cost and (c) More customized selling.

The number of intermediary levels indicate the 'length' of a channel. The channel level is short if there is only one intermediary; and long if there are more levels. The following are the types of alternative channels:

1. Zero – level channel
2. One – level channel
3. Two – level channel
4. Three – level channel

1. Zero – level channel

A zero level channel consists of a producer and his customers/consumers. This is also called direct marketing. Here the producer or the manufacturer sells products directly to the consumers. For examples, (a) Door to Door sales, (b) Sale by mail order method, etc. Further, Bata shoes, Titan watches etc. are sold through the manufacturers' own show-room.

2. One-level channel

It consists of one selling intermediary in the distribution

3. Two – level channel

It consists of two selling intermediaries in the distribution.

4. Three- level channel

It consists of three selling intermediaries in the distribution. (see the chart given below)

The different channel choices are

A. Manufacturer-Consumer

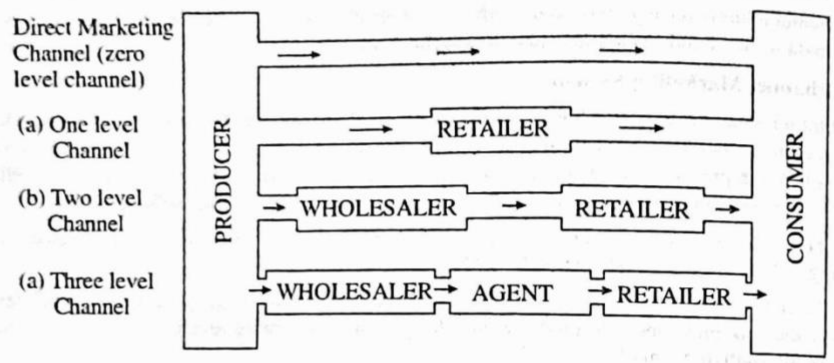
This is the direct channel. Products are transferred directly to consumers by the manufacturers. It is the shortest and simplest channel.

Direct channel is conveniently adopted under the following circumstances.

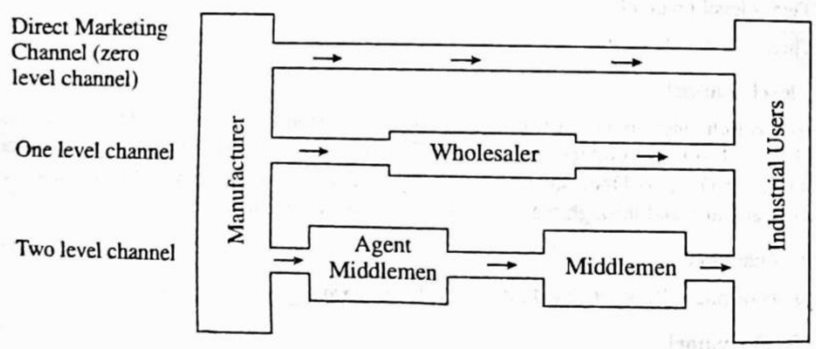
1. Producer of perishable goods aims to avoid physical distribution, but tries to sell directly e.g., bakery products, ice cream, etc.
2. Manufacturers of fashion goods enter into direct sales for quick sales, before the fashion disappears.
3. When the plant is located near the customers, it is easier to sell the products.

DISTRIBUTION CHANNEL

(A) CONSOMER GOODS



(B) INDUSTRIAL GOODS



4. Direct channel is widely used wherever new products are introduced into the market for aggressive sales.
5. Articles, which are of technical nature and need demonstration may be marketed directly.
6. When production is in small quantity, direct sales is employed.
7. Certain articles are sold directly, when the goods belong to special segments of customers.
8. When the manufacturer wants to have a close control over the price, the channel is good.
9. The manufacturer is able to undertake various functions of marketing, by employing his own sales force or by retail shops. The system is good.
10. It aims to reach the specific target markets.

Wholesalers

Wholesalers are selling merchandise to retailers, to other wholesalers or to individuals such as commercial and institutional users. Usually, wholesalers sell in large quantities. In the words of American Management Association, "wholesalers sell to retailers or other merchants and or individual, institutional and commercial users but they do not sell in significant amounts to ultimate consumers."

Definitions of Wholesalers

1. Wholesalers perform all the activities in selling goods or services to those who buy for resale or business use".

   - Philip Kotler

2. Wholesalers buy and resell merchandise to retailers and other merchants and to industrial, institutional and commercial users, but do not sell in significant amount to ultimate consumers.

   - Cundiff and Still

3. A person or firm that buys merchandise and resells it either to retailers for subsequent resale to the consumers or to business firms for industrial and business use is called wholesaler.

   - Nason and Rath

4. Wholesalers may be said to provide the economic utilities of time, place and possession which may lead to economy in distribution of adequate stock to be available at the right time in a convenient location.

   - Stanton

Wholesalers operate on a large scale in the central market and act as the first outlet in distribution usually specialising in one or a group of allied articles.

Functions of Wholesalers

The most important functions performed by wholesalers are as follows:

1. **Assembling and Buying**

   Assembling means collecting small lot of scattered agricultural production for economic bulk buying. It also implies bringing together stocks of different manufacturers, producing same line of goods. But buying involves selection of manufacturers and placing orders with them and making special purchases in case of seasonal products.

2. **Warehousing**

   Warehousing is closely related to assembling. A gap always exists between the time periods of production and consumption. Goods are to be preserved during this intervening period. It leads to capital lock-up plus risks. Wholesalers by performing warehousing function, relieve both the producers and retailers from the botheration of storage.

3. **Transporting**

   Wholesalers undertake transportation of goods from producers to their warehouse and back to the retailers. This transportation is done on most economic lines, either through their own fleet or through hired common carriers.

4. **Financing**

   Wholesalers grant credit on liberal terms to retailer. They also reduce the financial burden of the manufacturers by taking early delivery of stocks from them.

5. **Risk Bearing**

   Risks are unavoidable in business. They are to be borne and shifted. Wholesalers bear the risks of loss of change in prices, of damage, deterioration in quality, pilferage, theft, fire and the like of the goods held in storage. They also face the risks of non or under payment by the retailers.

6. **Grading, Packing and Packaging**

   Wholesalers sort out the stocks in terms of differing sizes, qualities, moisture contents and so on.

   Bulk breaking is done to meet the small lot requirements of the retailers. Actually, wholesalers repack for the consumers as per the orders placed by the retailers.

7. **Dispersing and Selling**

   Wholesalers assemble the goods and keep them in stock for dispersing and selling. Retailers buy from the wholesalers. The sales force owned by wholesalers calls on retailers periodically and collects orders from them.

Retailing is related to the sale of goods or services to the ultimate consumer for personal, non-business units.

The retailer deals in small quantities and his business is usually local in character. Retail trade is more towards variety as it has to satisfy innumerable wants of consumers. A retailer by operating near the residential areas of consumers, sells his merchandise and services directly to consumers.

Definitions of Retailers

In the words of William Stanton "retailing includes all activities directly related to the sale of goods and services to the ultimate consumers for personal or non-business use.

Thus, a retailer buys goods from preceding channel members in small assorted lots and sells them as per the needs of final users.

Wholesaler Vs Retailer

The following differences are noted between wholesalers and retailers.

Wholesaler	Retailer
1. A wholesaler primarily sells to the dealers or industrial users.	1. The retailer sells to the final consumers, mostly the households.
2. Goods sold by a wholesaler are either for resale or for further processing.	2. Retailing is a trading activity meant directly related to the sale of goods or services to the ultimate consumer for personal, non-business use.
3. The goods moving from wholesalers to the retailers are still in the pipeline.	3. Once the goods are sold by the retailer, they move away from the channel.
4. Wholesaler sells in large quantities.	4. Retailer sells in small quantities as per the requirements of consumers.
5. Generally, wholesaler specialises in one or a few products of the same line.	5. Retailer deals in a wide variety of products of many manufacturers.

Functions of Retailers

A retailer performs a variety of marketing functions. Of these, important ones are explained.

1. **Buying and Assembling**

   A retailer assembles products from different manufacturers and wholesalers. He keeps a wide variety of goods to meet the varied and small requirements of large number of customers.

2. **Warehousing**

   Retailer undertakes warehousing function in the sense that he holds stocks to match between the consumer demand and the supply conditions. Provision of uninterrupted supply to ultimate consumer is his aim.

3. Selling

Retailer is the buying agent of consumers. He is the link between the consumers and wholesalers or producers. The producer or wholesaler is insured for disposal of goods by means of retailers.

4. Risk-Bearing

A retailer is to face risks arising out of physical deterioration and changes in prices. Fashion goods are quick to become obsolete. Risks of loss occur in the form of natural calamities.

5. Grading and Packing

Retailers undertake grading and packing activities subsequently needed in the pipeline. As the retailer sells to ultimate consumers for consumption or user, he classifies goods into different grades and lots, according to the consumption pattern. Such grading and packing can be as per the individual requirements.

6. Financing

Consumer financing is of paramount importance in marketing of goods. Retailers grant credit to consumers on liberal terms. Investments made in wide assortment of goods and keeping them in their warehouse need great amount of finance.

7. Advertising

Through personal salesmanship, window, display and demonstration, a retailer attracts customers' attention to new goods and provides information about the new arrivals in the market.

8. Information Feedback

Retailers have personal contacts with the consumers and users of products. They can provide feedback information to wholesalers and manufacturers on the changes in the market.

Services of Retailers

1. Manufacturers and wholesalers get through retailers the opportunity of presenting their products to the consumers. Retailers act as the last outlet for distribution of goods within the country.
2. Individual sales in small quantities is the responsibility of the retailer. So, manufacturers and wholesalers are relieved from the botheration of selling in small lots.
3. Retailers seek to establish a long lasting relationship with buyers. They come to know about customer preferences, likes and dislikes during the course of their dealings. This information about customers can be passed on to wholesalers and manufacturers for their effective trading operations.

Physical Distribution (Logistic Management)

Physical distribution is concerned with planning and control of distribution activities and it refers to the physical handling or products. It involves not only moving the product to fill customer order but also to meet customer needs.

According to Philip Kotler, "Physical distribution involves planning, implementing and controlling the physical flows of materials and final goods from point of origin to point of use to meet customer requirements at a profit."

In simple meaning, the process of physical distribution involves handling and movement of products from the point of production to the point of consumption or use.

According to Stern and Coughlan, "The term logistics management and supply chain management are widely used to describe the flow of goods and services and related information from the point of origin to the point of consumption."

Physical distribution and marketing logistics are the two sides of the same coin. The functions of logistics involves the following activities:

(a) Order processing
(b) Inventory management
(c) Material handling
(d) Warehousing
(e) Transportation

ELEMENTS

A brief explanation of each of the above is as follows:

(a) Order Processing:

Physical distribution begins when a customer places an order. That is, the starting point of a order processing system is the placement of an order by a customer. The order is recorded in sales journal book. The management must monitor two flows – the flow of goods and the flow of information. Efficient order processing contributes to customer satisfaction, reduces costs and time-cycle, and increase profits. After assembling the goods, as per specifications, the warehouse arranges delivery through an appropriate carrier. The customer is sent an invoice, inventory records are updated and the order is delivered.

(b) Inventory Management

A company's inventories are in the form of raw materials and finished products to fill customer's orders. The efficiency of logistics management depends on how it manages inventory because the company's investment is lying in the form of materials and products. Over-stocking of inventory will lead to increasing inventory carrying cost: and at the same time, running out of stock will result in loss of customers. So, it must maintain a balanced inventory which would be ready to meet a customer order immediately. The main objective of inventory management must be to maintain a balanced stock which would keep the inventory carrying costs at a minimum. The following are the connected topics:

(i) Ordering cost
(ii) Inventory carrying cost
(iii) E.O.Q.

(i) Ordering cost

The ordering cost is the cost of planning an order. That is, ordering cost is the total ordering expenses for the ordering or purchasing department. The ordering cost includes the following:

(i) The salaries and wages of the staff in the department.
(ii) Cost of stationery, postage etc.

(*iii*) Rent for the department.

(*iv*) Depreciation for furnitures.

(*v*) Cost of inspection, etc.

(*ii*) **Inventory Carrying Cost**

It is the cost of holding the materials in the store and includes:

- Cost of storage space
- Insurance
- Stationary etc., used by the store
- Loss of interest on investment
- Loss due to pilferage and deterioration
- Salaries of the staff etc.

(*iii*) **E.O.Q.**

Economic order quantity or reordering quantity or EOQ is not a stock level. It is a quantity to be ordered when the stock reaches the minimum level. Reorder quantity is such that when it is added to the minimum stock, it should not exceed the maximum stock level. It is the quantity of inventory which can be reasonably ordered at a time and purchased economically. It is also known as standard order quantity, optimum quantity or economic lot size. It means that the total cost is at minimum. The problem is, how much to buy at a time. In case, large quantities are to be purchased the cost of carrying the inventory is high. This includes interest on investment, losses, obsolescence, space costs etc. On the other hand, for frequent purchases, in small quantities, the cost is high because of ordering expenses. Therefore, the quantity to be ordered depends upon two factors – the acquisition cost and the cost of possessing materials. When order for material is placed, it must facilitate more trade discount, economy in transport etc. and at the same time it should not incur heavy charges on account of storage, insurance etc.

Formula (EOQ) = $\sqrt{\frac{2AB}{CS}}$

EOQ = Economic Order Quantity

A = Annual Consumption

B = Buying cost per order

C = Cost per unit

S = Storage and carrying cost

Illustration :

Calculate EOQ from the following:

Annual usage : 600 units

Cost of placing an order : Rs. 12

Price of material per unit : Rs 20

Cost of storage : 20%

(*B. Com, MS, Madurai*)

Solution:

$$EOQ = \sqrt{\frac{2AB}{CS}}$$

A = Annual consumption = 600 units

B = Buying cost per order = Rs. 12.

C = Cost per unit = Rs. 20

S = Inventory carrying cost = 20%

$$\sqrt{\frac{2 \times 600 \times 12}{20 \times 20\%}} = \sqrt{\frac{2 \times 600 \times 12}{4}} = 60 \text{ units}$$

$$\text{(or) } \sqrt{\frac{2 \times 600 \times 12}{20 \times \frac{20}{100}}} = 60 \text{ units}$$

$$\text{(or) } \sqrt{\frac{2 \times 600 \times 12 \times 100}{20 \times 20}} = 60 \text{ units}$$

(c) Material Handling

Technique and procedures used for material handling can increase warehouse capacity, reduce the number of times a product is handled, improve customer service and their satisfaction. Various activities such as packaging, loading, movement, labelling systems must be coordinated to reduce costs and increase customer value and satisfaction. Correct internal packaging of materials is important to prevent any damage during handling and transporation. Companies use different methods of loading such as unit loading or containerization. Unit loading is grouping one or more boxes on a pallet and use forklifts, trucks or conveyer system. Container helps consolidate many items within the large inside space of one huge box, which is sealed at its originating point and opened after arriving at its destination.

(d) Warehousing

Warehousing provides a key link in the physical distribution chain and today's marketing managers closely scrutinize them. The location, size and capabilities of warehouses can profoundly affect a company's ability to satisfy its customers and deliver products. The purpose of a good warehouse is storage, bulk breaking, consolidation and utilization. There are various factors affecting the warehouse selection decision. This decision is influenced by the difficulty of moving goods directly from the assembly line to buyers or public warehouses. Factors like type of the product, cost of transportation, rent to be paid for warehouse, nature of market, labour supply condition, prevalent tax structure, geographical location and degree of competition have to be kept in mind while deciding on the location of a warehouse.

(e) Transportation

Transportation plays a key role in logistics management. The logistical system must be designed in such a way as to minimize the transportation cost. In our country, it has been roughly estimated that transport cost alone takes about 30% - 40% of product's price. In certain cases, the cost comes to 50% of product price. We may have to look two things – (a) Transportation cost must be at the minimum and (b) Speedy delivery to the customer. Look at the chart given on the next page:

RELATIVE RANKING OF VARIOUS TRANSPORT MODES

	Rank	Cost	Speed	Damage in Transit	Dependability Points	Reliable Delivery	Points Served
High	1.	Air	Air	Road	Pipe Line	Pipe Line	Road
	2.	Road	Rail	Rail	Road	Water	Rail
	3.	Rail	Road	Air	Rail	Road	Air
	4.	Pipe Line	Pipe Line	Water	Water	Air	Water
Low	5.	Water	Water	Pipe Line	Air	Rail	Pipe Line

SUITABILITY OF MODES OF TRANSPORT FOR DIFFERENT ITEMS

Mode of transport	Items suitable
1. Airways	Perishable items like flowers, eggs, vegetables, fruits, fish, costly instruments etc.
2. Vehicle (Road)	All consumer goods, books, clothes, fruits, paper goods, industrial goods etc.
3. Pipe Lines	Petroleum, gasoline, gas, lubricants, crude oil, etc.
4. Waterways	Fuel oil, petroleum, sand, stones, heavy goods, food-grains etc.
5. Railways	Iron and steel, timber, minerals, automobiles, canned food, agricultural crops etc.

Just-in-Time Technic (JIT)

The Japanese developed a time-based logistics management system known as just-in-time technique. It is based on the process of systematically controlling the supplies as well as production system of the organization. The concept of just-in time implies that raw materials are delivered in required quantities to the production plant as and when they are needed without any delay. Just-in-time process focuses on the reduction of elimination of inventory in the plant. Under this method it is assumed that whatever inventory is not used immediately is a waste. This concept also focuses on advanced production techniques like zero level inventory maintenance, manufacturing smaller batch lot sizes, rapid switch over, controlling the production with the help of preventive maintenance etc.

Benefits in JIT Technique

1. Increased inventory turnover
2. Eliminate waste
3. Increased quality
4. Inventory reduction
5. Increased manpower utilization
6. Increased equipment utilization
7. Stable production rate.

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