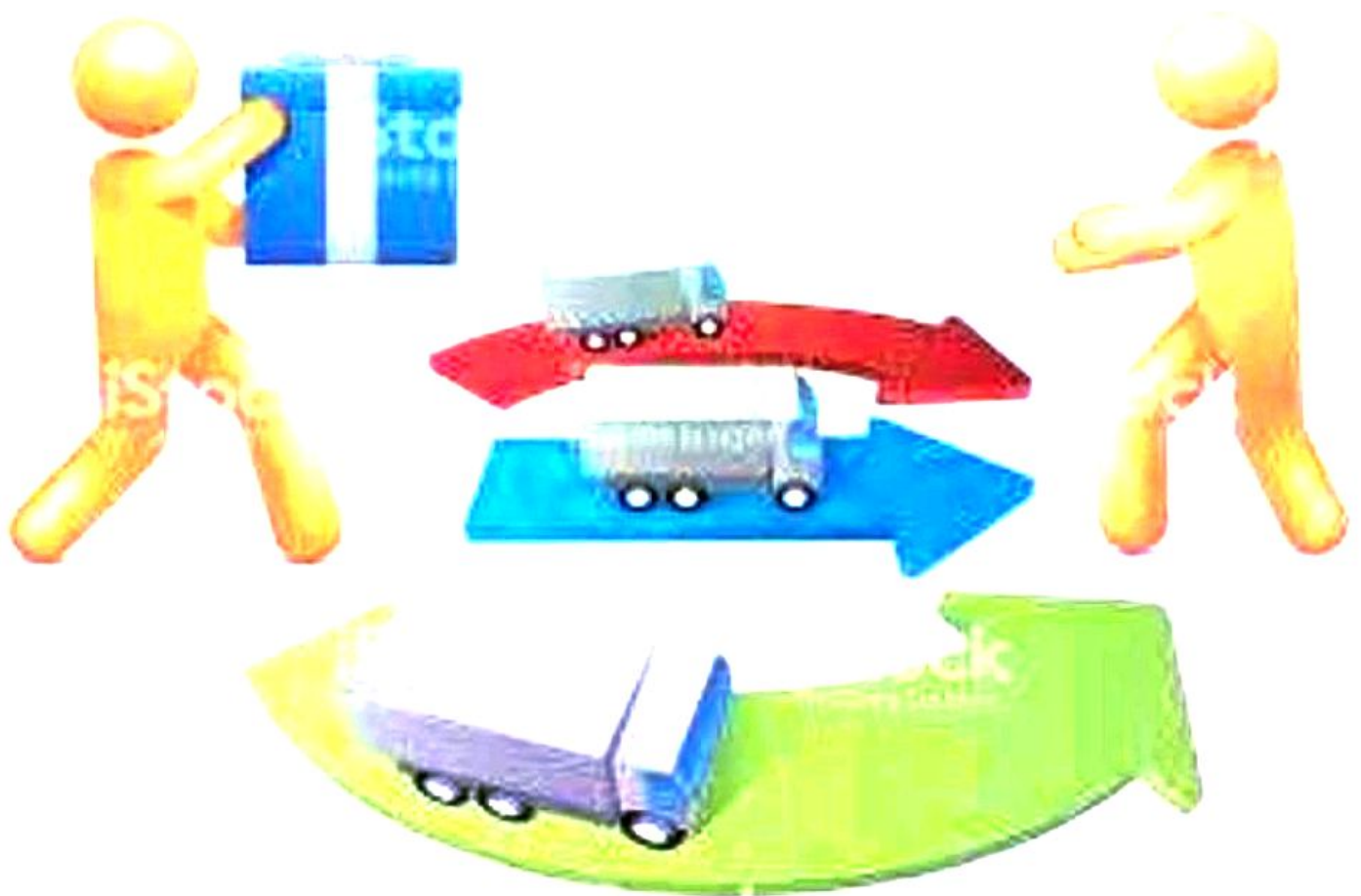
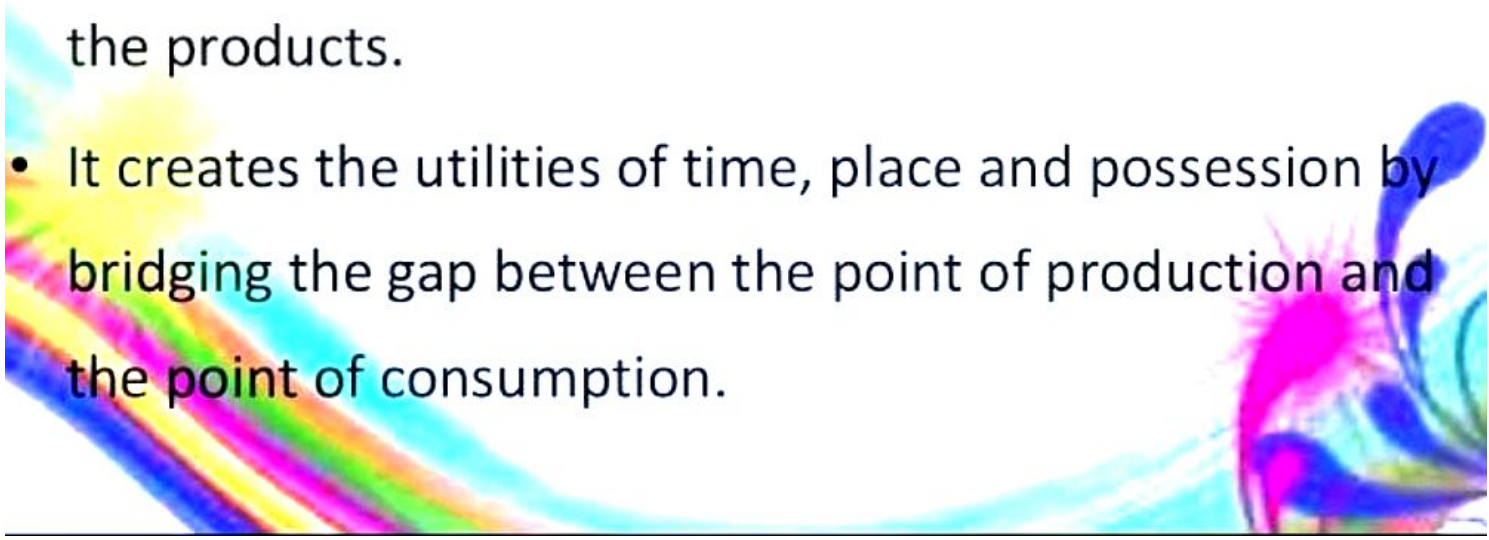

CHANNELS OF DISTRIBUTION



CHANNELS OF DISTRIBUTION

- Channel of distribution is the path through which products move from the place of production to the place of ultimate consumption. It is the connecting link between the producer and the consumer to sell the products.
 - It creates the utilities of time, place and possession by bridging the gap between the point of production and the point of consumption.
- 

Functions of Distribution channel

- 1. **Sorting:** The middlemen collect goods from various sources. These goods are different in
 - quality, size, nature, colour etc.
 - The intermediaries sort these foods into homogeneous groups on the basis of the size, quality, nature etc.
- 2. **Accumulation:** This function involves accumulation of goods into larger homogeneous stocks, which maintain continuous flow of supply.



Functions of Distribution channel

3. **Allocation:** Allocation involves breaking homogeneous stock into smaller marketable lots.
4. **Assorting:** Middlemen procure variety of goods from different sources and deliver them in combinations desired by the customers.

A retailer collects a variety of consumer goods and delivers them to households.

Functions of Distribution channel

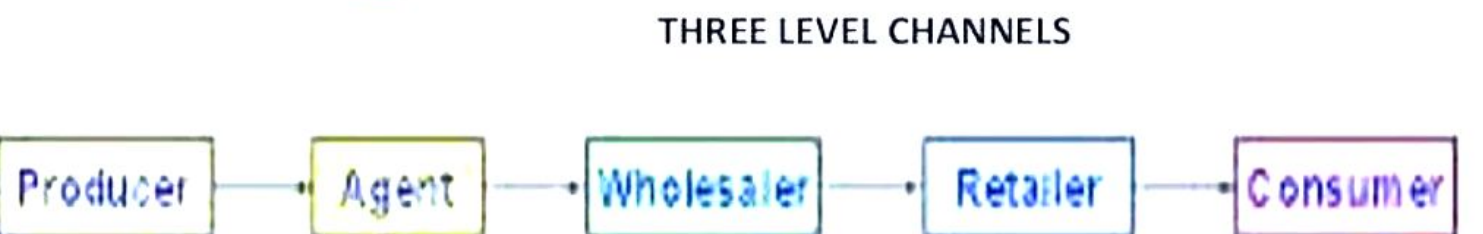
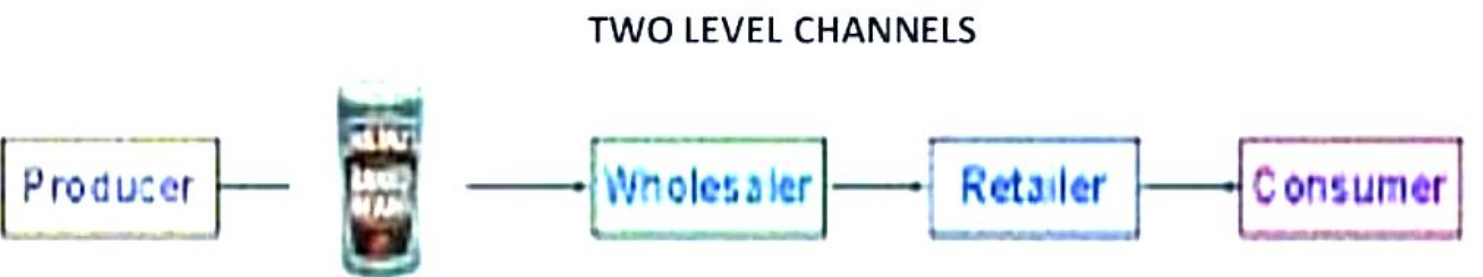
5. **Product promotion:** The middlemen advertise the product kept with them. They also do certain sales promotion activities like demonstrations; special displays etc. to increase the sale of products.
6. **Negotiation:** They negotiate and try to reach agreement on price and other terms of sale.
7. **Risk taking:** They bears the risk of changes in demand, damage in transit, theft, spoilage, destruction etc.



TYPE OF CHANNELS/CHANNEL LEVELS

TYPE OF CHANNELS/ CHANEL LEVELS

A distribution channel connects the producer and the consumer. Several intermediaries function in between them. The number of intermediaries determines the length of a channel. It is also called channel levels or type of channels.



1. Direct Channel/ZERO level/ Direct marketing

Direct channel of distribution means making goods available to consumers directly by the manufacturer, without involving any intermediary. Eg: Mail order selling, Internet selling, Selling through own sales force/ own retail outlets (eg. Bata, McDonald, Eureka Forbes etc.)

2. Indirect Channels

Indirect channels of distribution mean making goods available to the consumers by employing one or more intermediaries. Following are the different types of channels under indirect channels

1. One level

2. Two level channels

3. Three level channels

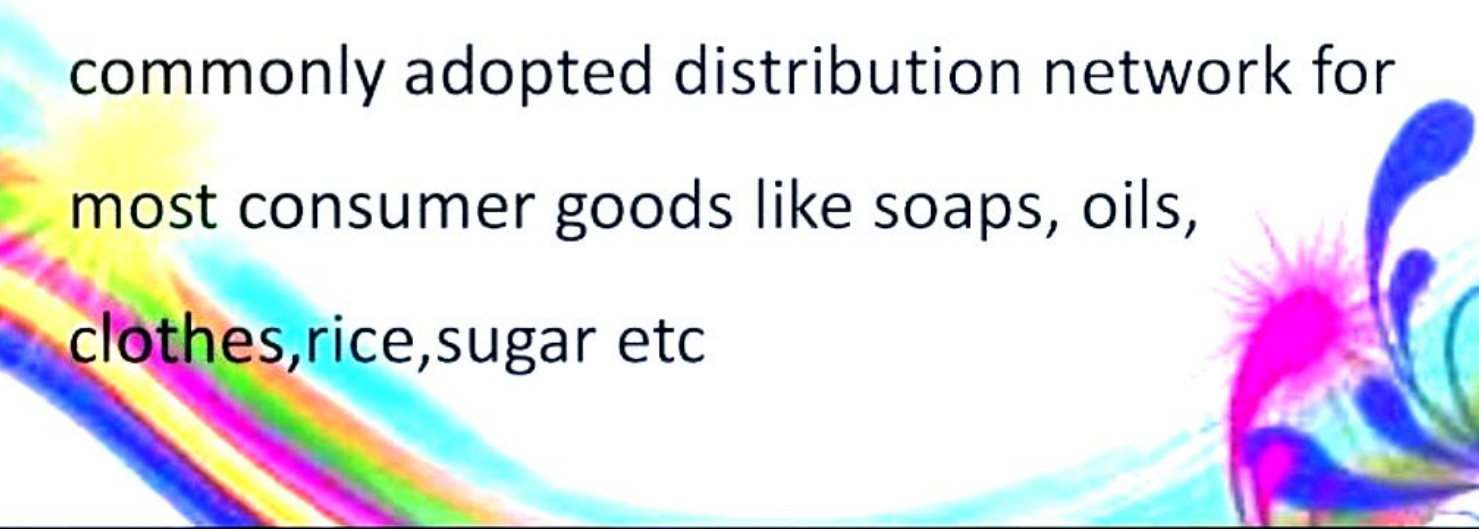
ONE LEVEL

In this type, the intermediary is the retailer firm directly supplies the product to retailer who sells the product directly to customers.

Eg: Maruti Udyog sells its cars through company approved retailers

TWO LEVEL CHANNELS

Under this channel, the manufacturer sells to one or more retailers who in turn sell to the ultimate consumers. This is the most commonly adopted distribution network for most consumer goods like soaps, oils, clothes, rice, sugar etc



4.Three level Channels

This is the longest Channel of distribution. In this path, one more middlemen is added . So there are three intermediaries' involved-agents, wholesalers and retailers. Manufacturers use their own selling agents or brokers who connect them with wholesalers and then the retailers.

Factors determining Choice of channels

It is essential to make right choice of channel of distribution. The choice of the appropriate channel depends on various factors

1. Product related factors
2. Market related Factors
3. Company Related factors
4. Competitive factors
5. Environmental Factors

1. Product Related Factors

(a) Nature of Product:

The Industrial products are usually technical, and expensive products purchased by few customers. It requires shortest channel (Direct Channel). Consumer product are standardized products which can be easily sold through intermediaries.

b) Perishable Vs Non - perishable products

Perishable products like fruits, vegetables and dairy products are best sold through short channels. While non-perishable products like soaps, toothpaste etc. require longer channels to reach wide spread consumers.

(c) Unit value

When unit value of a product is high direct channel is effective.

Eg: Gold, jewelry, Car etc..

On the other hand less costly product like cosmetics, detergents, soaps are sold through longer channels.

2.MARKET RELATED FACTORS

The following factors relating to the market are particularly significant in the choice of a channel of distribution.

- a. **Nature of Market:** In a consumer market longer channels are used whereas in industrial market shorter channels are preferred.



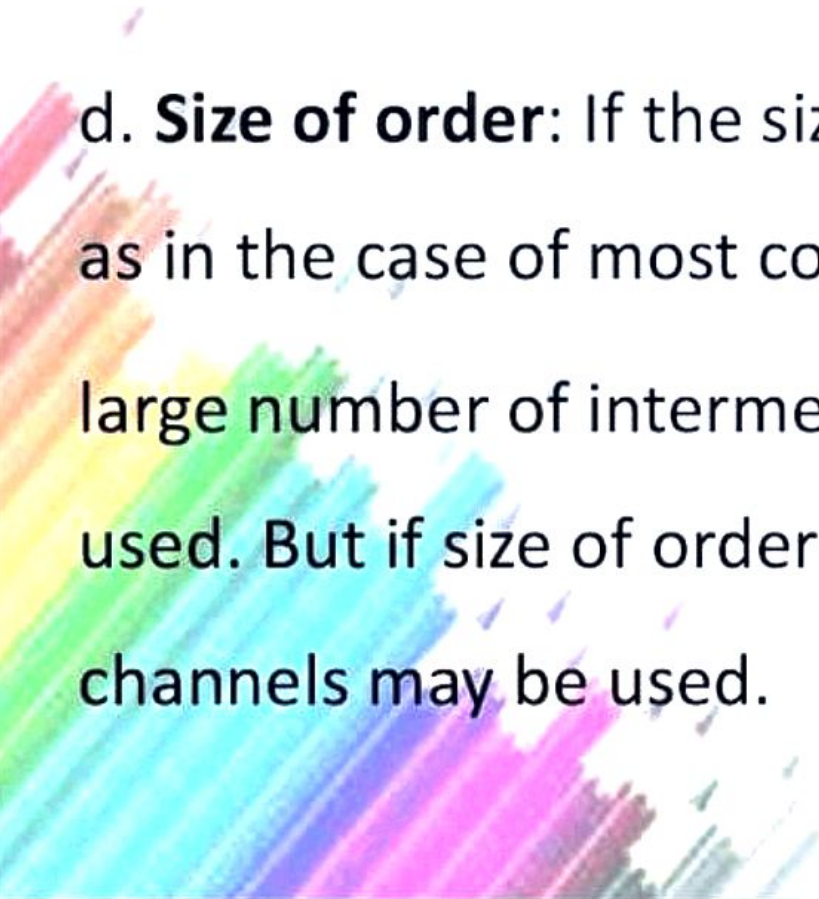
MARKET RELATED FACTORS

b. **Size of the market:** In case the number of buyers is small , shorter channels are used.

But indirect channels are required when the market consists of large number of customers.

c. **Geographical situation:** If the buyers are concentrated in a limited area, direct selling can be used. But widely scattered customers require the use of middlemen.

MARKET RELATED FACTORS



d. **Size of order:** If the size of order is small, as in the case of most consumers products, large number of intermediaries may be used. But if size of order is large, direct channels may be used.



3. Company related factors

The characteristics of the company influences the choice of distribution channels.

They are

(a) **Financial strength:** A company having large amount of funds can create its own channel of distribution. But financially weak companies will have to depend upon middlemen.



(b) Desire for control: Companies which want a tight control over distribution prefer direct channels. Otherwise indirect channels may be used.

(c) Management: If the management of a firm has sufficient knowledge and experience of distribution, it may prefer direct selling. On the other hand, firms whose management has not sufficient knowledge have to depend on middlemen.

4. Competitive factors

The choice of channel is also affected by the channel selected by competitors in the same industry. If the competitors have selected a particular channel, the other firm may also like to select the similar channel. Sometimes, we may avoid the channels used by the competitors

5. Environment factors

Environmental factors include factors such as economic condition and legal constraints.

eg: In a depressed economy, marketers use shorter channels to distribute their goods.