UNIT 11 CHANNELS OF DISTRIBUTION I

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11.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the meaning and role of distribution channels in overall marketing of products
- describe the common distribution channels used
- outline the factors influencing the choice of a distribution channel
- explain the strategies relating to the intensity of distribution.

11.1 INTRODUCTION

You have already studied about the two important elements of marketing mix, viz., product and pricing. You would, however, appreciate that merely producing a good product which has the desired attributes and is beautifully packed, branded and reasonably priced, does not ensure success in the market. It is equally important that the product is made available at a place where the customer would like to buy it. In other words, the product should be available at the right time and at the right place. In order to ensure this, each firm has to take certain strategic decisions for the systematic distribution of its products. One such decision is regarding channels of distribution. The present unit discusses this aspect. In this unit you will study the meaning, role and functions of a channel of distribution, factors influencing the choice of a distribution channel and the strategies relating to the intensity of distribution.

11.2 WHAT IS A CHANNEL OF DISTRIBUTION?

The distribution system is concerned with the movement of goods from the point of production to the point of consumption which involves a variety of functions. The main participants in the distribution system are: (1) the manufacturers, (2) the intermediaries, (3) the facilitating agencies, and (4) the consumers. Manufacturers produce the goods. This is the starting point in the distribution system. The second category of participants i.e., intermediaries, are involved in direct negotiation between buyers and sellers whether or not they take title to goods. These intermediaries locate
the manufacturers who produce various products, identify the needs of the consumers and distribute the goods. In the process, they perform various functions like buying, selling, assembling, standardisation and grading, packing and packaging, risk bearing, etc. Facilitating agencies are the independent business organisations other than intermediaries. These agencies facilitate the smooth distribution of goods from producers, through intermediaries, to consumers. The major facilitating agencies are banking institutions, insurance companies, transportation agencies and warehousing companies. The fourth category of participants in the distribution system i.e., consumers, are the final destination for goods in the distribution system.

A Channel of distribution is mainly concerned with second participant i.e., the intermediaries. The term ‘Channel of Distribution’ refers to the route taken by goods as they flow from the producer to the consumer. This flow of goods may mean its physical distribution and/or the transfer of title (ownership). Channels of distribution are mainly concerned with the transfer of title to a product which may be effected directly or through a chain of intermediaries. You know most producers do not sell goods directly to the consumers. They make use of a variety of intermediaries known as middlemen. These middlemen who take title to goods or assist in transferring the title to goods as they move from the producer to the consumer is called the channel of distribution. Thus, the channel of distribution is a network of institutions that perform a variety of interrelated and coordinated functions in the movement of goods from producers to consumers.

A distribution channel creates place, time, form and possession utilities to the products by prompt and efficient performance of the function of physical distribution. In modern societies the production of goods takes place on a large scale in factories concentrated in few localities while the consumers are scattered throughout the country. For instance, textile mills are concentrated at few places like Bombay, Ahmedabad, Coimbatore, etc., while the cloth is used by all the people in the country. Similarly, Maruti cars are manufactured at Delhi while the users are spread in all parts of the country. Something is true of agricultural commodities. Apples are produced mainly in Kashmir Valley and Himachal Pradesh whereas they are consumed by people throughout the country. Another such example is tea which is mainly produced in Assam while it is consumed everywhere in the country. Thus, in most of the cases goods are produced at one place while they are consumed at various other places and contact the producers directly. Similarly it is not possible for all the producers to contact the consumers directly and sell the goods. Hence, it is essential to move the goods from the place of production to the markets where consumers can buy them. Otherwise, production has no value and it becomes waste. A distribution channel helps in the movement of goods from producer to consumer and, thus, creates place utility to the product.

There is another barrier which arises due to time lag between production and consumption. The goods produced are not consumed at the same point of time. Some goods are produced throughout the year, but their consumption is seasonal. For example, umbrellas and raincoats are used only during rainy season, woollen garments are used only during winter season. In some other cases, goods are produced during a specific season while they are consumed continuously throughout the year. For example foodgrains are produced by farmers during a particular season but are consumed throughout the year. Thus, in many cases, there is a time lag between production and consumption. The distribution channel makes it possible for the consumers to get the product whenever they want them and, thus, creates time utility to the products.

Similarly, a distribution channel makes it possible for the consumer to get the products in a convenient shape, unit size, style and package. Thus it creates convenience value. Distribution channel also makes it possible for the consumer to obtain goods at a price he is willing to pay and under conditions which bring him satisfaction and pride of ownership. Thus, it creates possession utility. Thus, it is the distribution system which moves the goods from the place of production and makes them available to the consumers at the right place, time and form.
The functions performed by the distribution channels may be grouped into three categories as follows:

1) Transactional Functions
2) Logistical Functions
3) Facilitating Functions

1) Transactional Functions: Functions necessary to a transaction of the goods are called transactional functions. Buying, selling and risk bearing functions come under this category. Participants in the channel of distribution undertake these three functions. Producers sell the goods and intermediaries buy them. Later intermediaries sell the goods and consumers buy them. Because of this buying and selling by the channel participants, title to goods changes hands and goods flow from producer to consumer. If there is no willingness for buying and selling, there would be no transaction. When goods are bought, it involves risk also. For instance, an intermediary bought goods from the producer with the intention of selling at a profit. But he may incur loss due to fall in price. All the participants in the distribution channel assume such risk of loss.

2) Logistical Functions: The functions involved in the physical exchange of goods are called logistical functions. Distribution channel performs some functions like assembling, storage, grading and transportation which are essential for physical exchange of goods.

Goods are assembled in sufficient quantity to constitute an efficient selling and shipping quantity. Sometimes, it is also necessary to assemble a variety of goods to provide an assortment of items desired by buyers. Grading and packing of goods facilitate handling and sale of goods promptly. Proper storage of goods prevents loss or damage as well as helps regular supply of goods to consumers whenever they want. Transportation makes goods available at places where buyers are located. In the channel of distribution all these functions are performed so that goods may reach the market place at proper time and may be conveniently sold to the ultimate consumers.

3) Facilitating Functions: These functions facilitate both the transaction as well as physical exchange of goods. These facilitating functions of the channel include post-purchase service and maintenance, financing, market information, etc. Sellers provide necessary information to buyers in addition to after sales services and financial assistance in the form of sale on credit. Similarly, traders are often guided by producers to help them in selling goods, while the traders also inform producers about the customers' opinions about the products.

Thus, a channel of distribution performs a variety of functions such as buying, selling, risk bearing, assembling, storage, grading, transportation, post-purchase service and maintenance, financing, market information, etc. But the relative importance of storage is more important for perishable goods and bulky material such as coal, petroleum products, iron, etc. In the case of automobiles and sophisticated electronic goods like computers, after sales service is very important.

Check Your Progress A
1) What is a channel of distribution?

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2) State whether the following statements are True or False.
   i) Only buying and selling activities are carried on by a distribution channel.
   ii) Transportation is the primary function of a distribution channel.
   iii) Risk bearing is one of the functions of a distribution channel.
iv) In a distribution channel facilitating agencies take title to goods.

v) Channels of distribution create convenience value to the goods.

### 11.4 CHANNELS OF DISTRIBUTION USED

You have learnt about the nature and functions of channels of distribution. We shall now discuss the channels of distribution commonly used by the producers. We can classify the distribution channels into two broad categories: 1) direct channels and 2) indirect channels.

**Direct Channels**

When the producers sell their goods directly to the consumers, it is called a direct channel. No middleman is present between the producer and the consumer.

For direct selling, the first option involves supplying the product to the customer using your own salesmen and arranging your own deliveries. The second option is using the medium of post office. You obtain orders from your customers who respond by mail or telephone to your advertisements or to letters mailed directly to their houses. You deliver your products to them through mail or through some other carrier. The next alternative is to establish your own retail stores. Bata Ltd., for example, has established its own retail stores throughout the country. This practice has also been adopted on a smaller scale by a number of textile mills which have their own retail shops like Calico Mills, Raymonds, etc. DCM has franchised a number of retailers to sell their products to the consumers.

Direct channel is also called zero-level channel as there is no middleman in between producer and consumer. The three major ways of direct selling are shown in Figure 11.1.

**Indirect Channels**

In the case of other products it is not possible for the manufacturer to supply goods directly to the consumers. So middlemen like wholesaler, retailer and mercantile agents may be engaged in the channel of distribution.

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**Figure 11.1: Direct Channels of Distribution**

An example of direct selling is provided by Eureka Forbes Ltd. (EFL), a Bombay based company which markets vacuum cleaners and water purifying equipment. It believes that if the market is in the customer's house, the best way to get there is to knock at the door. The company has clearly demonstrated that door-to-door selling can be effective in Indian conditions. Its salesforce of over 500 people spread out over nearly 40 branch offices in 29 towns make it the country's largest commercial direct sales organisation. Between 1982-83 and 1985-86, their sales of vacuum cleaners, water purifiers, etc., have gone up from Rs. 3.3 to Rs. 11 crore. They took the cue from Electrolux, the world's leading manufacturer of vacuum cleaners, and a firm believer in door-to-door selling.

**Indirect Channels**

In the case of other products it is not possible for the manufacturer to supply goods directly to the consumers. So middlemen like wholesaler, retailer and mercantile agents may be engaged in the channel of distribution.
in the distribution channel, it is called an indirect channel. As shown in Figure 11.2 there could be four indirect channels.

![Figure 11.2 Indirect Channels of Distribution](image)

The manufacturer may supply goods directly to retail traders. In this case the producer ascertains the requirements of retailers at periodical intervals and goods are supplied accordingly. As and when required, the retailer may also procure goods from the producer’s godown located in that region. In the same way, the producer can supply goods to the consumers by using the services of the wholesale trader. Since there is only one middleman, (either retailer or wholesaler) in these two channels, this is referred to as one level channel. Alternatively, the producer can use the services of the wholesaler as well as the retailer. In this case the manufacturer may supply his products in bulk to wholesalers. The retailer may buy periodically from the wholesaler and sell the same to the consumers located in his locality. As there are two middlemen (both wholesaler and retailer) in this channel, it is referred to as two level channel. Another alternative channel of distribution consists of mercantile agent, wholesaler and retailer. In this case, the manufacturer deals with a mercantile agent. Then the wholesalers buy the goods from the agents and sell the same to retailers. In turn the retailer sells it to the ultimate consumers. This type of channel is referred to as three level channel as there are three types of middlemen involved in the distribution.

We have understood that there are a number of channels of distribution prevalent. From the producer’s point of view, more the number of middlemen used, lesser is the control he can have over the distribution. Let us now examine how these channels of distribution vary from one type of product to another. Basically we can classify the goods into two categories: 1) consumer goods, and 2) industrial goods. Let us now discuss briefly about the channels of distribution used for these two categories of products.

### 11.4.1 Channels of Distribution Used for Consumer Goods

As you know, the goods which are consumed by the household consumers are called consumer goods. Under this category you can find a very wide range of items such as food items, stationery, cars, clothing, shoes, household electrical appliances, TV sets, transistors, etc. The channel of distribution used for different products is not the same. Channels are different from one type of product to the other. Look at Figure 11.3 carefully. It gives the idea about the channels of distribution for some of the customer goods.

As shown in the figure, consumers sometimes go directly to the factory and buy the goods or order the goods from the catalogue. Durable consumer goods like cars, clothing, furniture, textbooks, shoes, etc., are generally distributed through retailers. In many cases showrooms are established by the manufacturer himself which undertake the retail trade. For example, Bata Shoe Company sells shoes through its showrooms. Consumer goods like auto spare parts, stereos, video recorder, etc., are distributed
through wholesalers and retailers. Consumer goods of daily need like foodgrains, sugar, salt, edible oil, soap, paper, pencils, etc., are generally distributed through agent or broker, wholesaler and retailer.

11.4.2 Channels of Distribution Used for Industrial Goods

As you know, the goods which are consumed for further production of goods are called industrial goods. Under this category, there are a variety of products such as machinery, equipment, industrial raw materials (e.g., sugarcane, cotton, coffee, oilseeds, iron ore, etc.), electrical and electronic components, etc. The channels of distribution are not similar for all the products under this category. Look at Figure 11.4 carefully. It presents the major channels of distribution for some of the industrial goods.

High value industrial goods like mainframe computers, aircraft, heavy machinery, etc., are supplied directly to the buyers. In these cases, manufacturers procure orders by mail on the basis of catalogues and price lists. Sometimes salesmen are also used to contact the buyers. Relatively less expensive items like trucks, conveyor systems, etc., are supplied through distributors. You know industries consume many agricultural products. For instance, tea leaves are processed to prepare tea powder which we use for preparing tea. Agricultural products like corn, coffee, soybeans, etc., are procured by the industrial buyers through agent middlemen. When electrical components are imported from foreign markets, they are procured through an agent and industrial distributor.
Check Your Progress B

1) Distinguish between a direct channel and an indirect channel.

2) From which type of intermediary (wholesaler/retailer/dealer/showroom) you buy the following items.

<table>
<thead>
<tr>
<th>Item</th>
<th>Type of Intermediary</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Bread</td>
<td></td>
</tr>
<tr>
<td>ii) Milk</td>
<td></td>
</tr>
<tr>
<td>iii) Shoes</td>
<td></td>
</tr>
<tr>
<td>iv) Wooden Furniture</td>
<td></td>
</tr>
<tr>
<td>v) TV Set</td>
<td></td>
</tr>
<tr>
<td>vi) Children’s Garments</td>
<td></td>
</tr>
<tr>
<td>vii) Vegetables</td>
<td></td>
</tr>
<tr>
<td>viii) Sweets</td>
<td></td>
</tr>
</tbody>
</table>

3) Visit a local retail store in your neighbourhood area and find out what type of items he procures from manufacturers, wholesalers and distributors.
4) Write the names of two items which are distributed under the following channels
   i) Manufacturer → consumer

   ii) Manufacturer → wholesaler → consumer

   iii) Manufacturer → wholesaler → retailers → consumer

11.5 FACTORS INFLUENCING THE CHOICE OF CHANNEL

We have learnt that there are a number of channels used for distributing the goods. There are direct channels and indirect channels, short channels as well as long channels. We also learnt that the different channels are used for different types of products. When there are alternative channels available, the selection of an appropriate channel becomes a very important decision for the producers. The choice of a channel for distribution of any product should be such that it should effectively meet the needs of customers in different markets at reasonable cost. The factors which generally influence the choice of the channel of distribution may be categorised under four groups as follows:

1) Market considerations
2) Product considerations
3) Middlemen considerations
4) Company considerations

Product Considerations
1) Perishability: The nature of the product influences the choice of channel. Perishable products like eggs, milk, etc., are supplied either directly or through the short channels. If long channels are opted for perishable goods, they may get spoiled by the time they reach the consumer. So products which are perishable must be speeded through the short channels.

2) Bulkiness: In the case of heavy and bulky products (e.g., cement, steel, heavy machinery, etc.) where distribution and handling costs are more, short channels are preferred. On the other hand, long channels are found in the case of light-weight and small-size items like dress material, readymade garments, pocket calculators, stationery, toothpaste, toothbrush, etc.

3) Technical nature of the product: Sophisticated electrical and electronics equipment which require careful handling are also generally distributed directly or through short channels. In the case of sophisticated equipment like computers and xerox machines, considerable amount of presale and postale service is required. Wholesalers and retailers may not be able to provide such services. So manufacturers often distribute them directly. However, simple mechanical products like electronic toys, time-clocks, etc., are supplied through long channels for intensive distribution.

4) Product value: Unit value of the product is also an important consideration while deciding the channel of distribution. Normally larger channels are preferred for products whose unit value is low. However, short channels may be equally economical when such products are sold in bulk or are combined with other products.

Market Considerations
1) Size of the customers: If the number of customers is large, long and multiple channels are necessary for intensive distribution of goods. Short channels and direct selling
are possible in the case of fewer customers purchasing large quantities at regular intervals and if they are concentrated in a small area.

2) **Potential volume of sales:** The choice of channel depends upon the target volume of business. The ability to reach target customers and the volume of sales varies between different channels. If one outlet is not adequate for achieving the target, more channels need to be used. Of course, the competitive situation must be taken into account while examining the potential volume of sale through different channels.

3) **Concentration of buyers:** If the buyers are concentrated in a few areas, it is possible for the manufacturer to establish sales divisions in such areas and sell directly to the buyers. Thus, short channels may be feasible when buyers are concentrated in fewer locations. On the other hand, if buyers are spread over a large geographic area, short channels may become uneconomical and the manufacturer may have to go for long and multiple channels.

4) **Size of the purchase order:** Manufacturer can distribute directly or through a short channel in the case of large scale buyers. Normally long channels are effective and economical in the case of buyers whose purchase orders are usually too small to justify direct sale.

**Middlemen Considerations**

1) **Types of middlemen:** Availability of suitable middlemen in the channel of distribution is another factor in the selection of the channel. This is because different functions like standardisation, grading, packing, branding, storage, after-sale servicing, etc., are expected to be performed by middlemen. Efficiency of distribution depends upon the size, location and financial position of middlemen. If the middlemen in a specific channel are dependable and efficient, that channel may be preferred by producers.

2) **Channel competition:** There are different situations in which manufacturers compete with each other for availing the services of particular wholesalers. Similarly, wholesalers often compete with each other to deal with particular retailers or carrying particular brands of products. Sometimes producers use the same channel which is used by their competing producers. If any producer arranges exclusive distribution through a particular wholesaler, the other producers also do the same. Thus selection of a channel may depend on the competition prevailing in the distribution system.

3) **Availability of middlemen:** The producer may wish to make use of the services of specific category of middlemen, but such middlemen may not be available in the market. They may be carrying the competitors' products and may not wish to add another product line. In such situations, the manufacturer has to make use of the services of the middlemen whoever available in the market.

**Company Considerations**

1) **Cost of distribution:** The various functions carried out in the channel of distribution add to the cost of distribution. While choosing a channel, the distribution costs of each channel should be calculated and its impact on the consumer price should be analysed. A channel which is less expensive is normally preferred. Sometimes, a channel which is convenient to the customers is preferred even if it is more expensive. In such cases the choice is based on the convenience of the customers rather than the cost of distribution.

2) **Long-run effect on profit:** Direct distribution, short channels, and long channels have different implications with regard to the profits in the short-run and long-run. If demand for a product is high, reaching the maximum number of customers through more than one channel may be profitable. But the demand may decline in course of time as competing products appear in the market. It may not be economical than to use long channels. So while choosing a channel one should keep in mind the future market implications as well.

3) **Experience and ability:** A manufacturer who has reasonable experience and expertise in marketing the products may prefer to distribute his products on his own.
But the manufacturers who do not have marketing know-how prefer to make use of the services of middlemen.

4) Financial strength: Lots of financial resources are required to establish a distribution system. So only a financially strong manufacturer can establish his own distribution system and a financially weak firm may have to depend on middlemen.

5) Extent of channel control: Producers who want good control over the distribution of their products prefer short channels. Controlling of the channels is necessary to undertake aggressive promotion, to maintain fresh stocks and retail prices.

Thus in making a choice, the manufacturer has to consider his objectives, resources and the channels available to him, nature of the product and characteristics of the buyers. He would like to use the channel of distribution which will produce the combination of sales volume and cost that yields him the maximum amount of profit. There are no set guidelines for channel selection and the manufacturer will have to make his own decision in the light of his own judgment and experience. However, most companies do use multiple channels of distribution to ensure that their products reach the maximum number of people.

The task of manufacturer does not end after the channels have been selected. He has to review the services performed by the agencies involved at fairly frequent intervals, keep in close touch with the developments related to the distribution of his product and seek to improve his marketing methods constantly. He may also realise that the best channel when the product was introduced, may not be the most effective one when the product is established. The following criteria may be used for the evaluation of channel members: 1) their sales performance, (ii) their marketing capabilities, (iii) their motivation to increase the volume of sales, (iv) competition faced by them, and (v) their growth prospects.

11.6 INTENSITY OF DISTRIBUTION

As discussed earlier, the number of levels in a channel may range from one level which is the most direct (manufacturer-user) upto three levels, depending upon various factors. After deciding the number of levels, each firm has to decide about the number of intermediaries at each level of the channel. Here comes the question of intensity of distribution. Intensity of distribution refers to the number of intermediaries at each level of marketing channel. Let us assume that a manufacturer of refrigerators has opted for a one level structure consisting of the manufacturer, retailer and consumer. The decision with respect to intensity of distribution in this case concerns the number of retailers who would be selling the firm’s product. In other words, whether a few retailers would be entrusted the role of distribution or a very large number of retailers would be employed to distribute the firm’s products. In short, three broad alternative options are available to a firm with regard to intensity of distribution. These are: 1) intensive distribution, 2) selective distribution, and 3) exclusive distribution.

1) Intensive Distribution Policy: Intensive distribution policy refers to sale of products through a very large number of outlets. This policy aims at giving maximum exposure to the product for sale in the market. Generally the producers of convenience goods such as soft drinks, cigarettes, eggs, bread, toilet soap, biscuit, toothpaste, chewing tobacco, etc., adopt the policy of intensive distribution. All these products have low unit cost but are purchased frequently and have large turnover.

The objective of this policy is to reach every potential buyer so that not even a single chance of making a sale is missed. It enables the firm to spread distribution overhead cost over a wider network of dealers and minimise delay in communication in reaching a large number of buyers. However, it is an expensive policy as the firm has to collect and serve small orders from a large number of outlets.

2) Selective Distribution Policy: As the name suggests, this policy puts a limit to the number of outlets that will be carrying a product. Thus, as against using all possible intermediaries at a particular level, a careful selection is made of the outlet through
which the product will be distributed. The manufacturers of shopping goods such as fabrics, fans, washing machines, coolers, TV sets, mopeds, scooters, etc., (for the purchase of which the consumers are willing to make some extra efforts) generally opt for selective distribution.

This policy is more suitable for products having brand preferences because the consumers of such products are expected to approach the channel used by the firm. As the marketing firm does not have to dissipate its efforts over many outlets, including many marginal ones, this policy is less costly than the intensive distribution policy. Also it enables the manufacturer to gain adequate market coverage with greater control as compared to the intensive policy.

3) **Exclusive Distribution Policy:** Under this policy a limited number of dealers are granted the exclusive right to distribute the firm's products in their respective territories. Under this policy there is an agreement between the manufacturer and the middlemen where the manufacturer commits to channelize his products exclusively through the middleman in the whole market or a part thereof and the middleman, in turn, serves the manufacturer exclusively in terms of the products handled and the market served. When an agreement is made with an agent middleman, it is known as **sole selling agency.** But when such agreement is between a manufacturer and a merchant, it is known as **dealership** at wholesale level and **distributionship** at retail level.

Exclusive distribution policy is particularly suitable for those products which are slow-moving, have high unit value and require after sales service. Thus, a large number of manufacturers of mopeds, scooters, cars, trucks, etc., adopt exclusive distribution policy for their products. For example, Maruti Udyog Ltd., Ashok Leyland, Bajaj Scooters, and Lohia Machines Ltd., have appointed dealers/distributors in different territories for the distribution of their products.

The policy of exclusive distribution allows maximum control over prices, promotion, services, etc., by the manufacturer firm. Thus, exclusive distribution is usually undertaken when the manufacturer desires more aggressive selling on the part of middleman or when increased control over distribution is deemed to be important. Another advantage of exclusive distribution is that it leads to specialization on the part of the dealer which results in improved after-sales services to the customers. However, there may be problems in getting cooperation from the dealers. As such there is a need for careful management of the channel members in this arrangement. Also, many a time such arrangements in our country have been declared anti-competitive by the MRTC Commission.

The decision with respect to intensity of distribution is an important aspect of channel structure and is often considered as a key factor in the firm's basic marketing strategy. It also reflects the firm's overall business policies. For example, marketing strategy that seeks to blanket the market with a product would require a channel structure that has a very high level of distribution intensity. But a low intensity or a high degree of selectivity would be required to be built into the channel structure when the marketing strategies focus on carefully chosen target market. In general, when a firm's basic marketing strategy requires mass appeal for its products, intensive distribution is used. But when the strategy calls for stressing more narrow segmentation, a more selective channel is used.

**Check Your Progress C**

1) Distinguish between multiple channels of distribution and intensive distribution.

2) Distinguish between selective distribution and exclusive distribution.
3) What is intensity of distribution?

4) List out the factors which influence the choice of channels of distribution.

5) State whether the following statements are True or False.
   i) Normally direct channel is preferred for heavy engineering machinery.
   ii) Intensive distribution policy is followed for distributing bread.
   iii) Intensive distribution means using multiple channels for the same product.
   iv) Direct channel is suitable when there are a few big buyers concentrated in one area.
   v) Manufacturer can have more control over distribution in the case of short channels.

11.7 LET US SUM UP

Channel of distribution refers to a network of institutions that perform a variety of interrelated and coordinated functions in the movement of products from producer to consumers. Distribution channels play a very important role in achieving the marketing objectives of an organisation. They create time, place, ownership and convenience utilities to the product and thereby add to its value. The functions performed in the channels of distribution are of three kinds: (i) transactional functions which are necessary for purchase and sale, (ii) logistical functions which are required for physical exchange of goods, and (iii) facilitating functions which facilitate the transactions as well as physical exchange.

Channels of distributions can be grouped into two categories: (1) direct selling by manufacturers (direct channel) and (2) use of middlemen such as agents, wholesalers and retailers (indirect channel). Channels of distribution for consumer goods of daily use consist of agents or brokers, wholesalers, and retailers as intermediaries. Durable consumer goods are generally distributed through showrooms of manufacturers, or through retailers called dealers. Capital goods are often sold directly by manufacturers. Sometimes distributors, dealers or agents are employed for supply of such goods.

The choice of a channel for the distribution of any product depends upon a number of factors such as characteristics of the product (perishability, bulkiness, technical nature, unit value), nature of the market (size of the customers, concentration of buyers, size of purchase order, potential volume of sales), middlemen considerations (type of middlemen, channel competition, availability of middlemen) and company considerations (cost of distribution, long-run effect on profits, experience and ability, financial strength). However, while selecting the channel, manufacturer will have to make decision in the light of his own judgment and experience. Normally most of the companies use multiple channels of distribution to ensure that their product reaches the maximum number of people.

The channels of distribution perform all such functions which facilitate transfer. A significant decision in the area of channels is with respect to intensity of channels, which
means deciding about the number of intermediaries to be used at each level of marketing channel. The three alternative options with respect of intensity of distribution are (i) intensive distribution, (2) selective distribution, and (3) exclusive distribution. In general, when a firm's basic marketing strategy requires mass appeal, intensive distribution policy is adopted.

11.8 KEY WORDS

Channel of Distribution: A network of institutions that perform all the activities necessary for moving a product and its title from the manufacturer to the ultimate consumers or users.

Direct Distribution: The method of distribution under which manufacturers directly sell the products to consumers without engaging any intermediary.

Exclusive Distribution: Distribution of products through some limited outlets which are granted exclusive rights to distribute the firm's products in their respective territories.

Indirect Distribution: The method of distribution under which the products are moved from producers to users with the help of one or more intermediaries.

Intensity of Distribution: Distribution of products through a very large number of intermediaries at each level of marketing channel.

Multiple Channels of Distribution: Simultaneous use of different channels for the same product.

Selective Distribution: Distribution of products through a limited number of intermediaries at each level of the distribution channel.

11.9 ANSWERS TO CHECK YOUR PROGRESS

A 2 i) False ii) False iii) True iv) False v) True
C 5 i) True ii) True iii) False iv) True v) True

11.10 TERMINAL QUESTIONS

1) A new soft drink manufacturing company which has successfully launched its cola and lemon drinks in Bombay is planning to introduce these products to the other three metropolitan cities in the country. What kind of distribution channel would you recommend to the company? What factors would you take into consideration while selecting the appropriate channel for this company?

2) In your opinion which policy (intensive, selective, or exclusive) is suitable for distributing the following products? Give reasons also.
   i) Cotton fabrics
   ii) Readymade garments for children
   iii) Industrial machinery
   iv) Soft drinks
   v) Washing machines
   vi) Fast food products like Potato Chips, Noodles, etc.

3) A computer company at present is selling its products directly to institutions and other buyers through a network of fifty salesmen. You have to persuade the company to discontinue direct selling and switch over to selling through intermediaries. What do you suggest?

4) What is a channel of distribution? What factors do you keep in mind while selecting distribution channel for your product?

5) Channels of distribution are different for different products, why?
6) What do you mean by direct channels and indirect channels? Explain the channels used for consumer goods and industrial goods.

7) 'A channel of distribution creates various utilities to the product', Discuss.

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the university for assessment. These are for your practice only.