Distribution

1. **What is distributions channels:**

Ans: A distribution channel is the route through which goods or services move from the company to the customer or the transfer of payment happens from the customer to the company.

Distribution channels can mean selling of products directly or selling through wholesalers, retailers etc. The same applies for payment transfer from customers to company; it can move through a path or can be sent directly to the company.

2. **Functions of Distribution Channels**

Ans: Distribution channels basically function to deliver goods from the manufacturer to the customer.

The following are the functions of distribution channels −

- Facilitate selling by being physically close to customers
- Gather information about potential and current customer competitions, other factors and forces of the environment
- Provide distributional efficiency by bridging the gap between the manufacturer and the user efficiently and economically
- Assemble products into assortments to meet buyers' needs
- Match segments of supply with segments of demand
- Assist in sales promotion
- Assist in introducing new products
- Assist in implementing the price mechanism
- Assist in developing sales forecast
- Provide market intelligence and feedback
- Maintain records
- Take care of liaison requirements

- Standardize transaction

3. Objectives of Distribution Channels

Ans: Objectives of a distribution channel are planned as per the target of the enterprise and executed respectively. The following are the various objectives behind the planning of distribution channels −

- To ensure availability of products at the point of sale
- To build channel member's loyalty
- To stimulate channel members to put greater selling efforts
- To develop management efficiency in channel organization
- To identify the organization at the level
- To have an efficient and effective distribution system for making the products and services available readily, regularly, equitably and fresh.

4. Major Channels of Distribution

Here is a list of some of the major channels of distribution −

- Manufacturer → Consumer
- Manufacturer → Retailer → Customer
- Manufacturer → Wholesaler → Customer
- Manufacturer → Wholesaler → Retailer → Customer
- Manufacturer → Agent → Retailer → Customer
- Manufacturer → Agent → Wholesaler → Customer
- Manufacturer → Agent → Wholesaler → Retailer → Customer

Profit distribution decreases as the channel length increases.

5. Role of Channels of Distribution:

Ans: In the present widening market, distribution channels play an important role in achieving marketing objectives of an organisation. A manufacturer creates value utility in the product or service but time and place utilities are created by distribution channels. In the words of Drucker, “both the market and the distribution channels are often more crucial than the product. They are primary, the product is secondary”.

Distribution channels help in the following ways:

(i) Enhance Efficiency:

The components of distribution channels enhance the efficiency of the system. A system of manufacturers directly dealing with consumers will be less efficient than the decentralised system involving distribution agents.

(ii) Smooth Flow of Goods and Services:

The distribution channels smoothen the flow of goods and services by creating possession, time and place utilities.

(iii) Reducing Cost of Transactions:

The cost of transactions is minimised if they are undertaken regularly. The distribution through intermediates will be possible if products are standardised. The terms and conditions of purchase, sale, payments will be standardised resulting into increased number of transactions. Instead of casual transactions, routine dealings will reduce the cost of marketing.

(iv) Facilitate Search:

The buyers and sellers search for each other in the market to transact for products and services. This function is facilitated by distribution agents. These intermediaries remain in touch with sellers and buyers, thus facilitate exchange.

(v) Less Stocks of Goods:

In the absence of distribution agents manufacturers are required to keep large stocks of goods. When middlemen enter the chain of distribution then stocks are maintained by large number of intermediaries and it reduces the burden of producers.

(vi) Proximity to Consumers:

The intermediaries are more near to the consumers as compared to the producers. They are in direct touch with the users of goods and services and understand their reactions to the supplies. The intermediaries help producers in knowing the reactions of consumers to the goods and services brought out by them. This information is of immense value to producers in planning for their products.

6. Types of Distribution channels

Ans: Everything you need to know about the types of distribution channels. A manufacturer may plan to sell his/her products either directly or indirectly to the customers.

In case of indirect distribution a manufacturer has again an option to use a short channel consisting of few intermediaries or involve a large number of middlemen to sell his/her goods.

Therefore, there are various forms of channel networks having different number and types of middleman.

Channels can be long or short, single or multiple (hybrid), and can achieve intensive, selective or exclusive distribution. The length of channel could have any number of intermediaries or be direct to customers.

Some of the types of distribution channels are:-

A. Direct Channel –

1. Selling at Manufacturer's Plant
2. Door-to-Door Sales
3. Sales by Mail Order Method
4. Sales by Opening Own Shops

B. Indirect Marketing Channel –

1. One-Level Channel
2. Two-Level Channel
3. Three-Level Channel
4. Four-Level Channel

C. Hybrid Distribution Channel or Multi-Channel Distribution System.

A. Direct Channel (Zero Level):

The shortest channel of distribution of goods and services adopted by a producer is the zero level channel, where are absent between the producers and consumer.

A producer chooses direct distribution due to the following reasons:

(i) If the firm has marketing expertise.

(ii) If the firm is able to perform the marketing activities at a reasonable cost.

(iii) If the firm has adequate financial resources for investing in marketing.

(iv) Non-availability of suitable middlemen to handle the product.

(v) If the buyers prefer direct marketing.

(vi) If the competitors are following direct marketing.

It was widely used by producers to sell goods and services prior to the advent of industrial revolution and is the one of the oldest method.

Examples – e-business (selling through internet); Direct Mail Order Houses; Chain Stores (Colourplus, Nike, Bata etc.); Direct selling (Amway; Oriflame etc.)

Under direct channel of distribution, the manufacturer can adopt one of the following methods of selling:

(i) Selling at Manufacturer's Plant:

It is one of the earliest, easiest and cheapest methods of distribution of goods and known as direct selling. The goods are sold by the producers directly to the consumers under this system, and it is usually preferred in case of perishable products like bread, milk, ice-cream, fish, meat, egg, vegetables and agricultural products, etc.

These products are directly sold to the consumers for the reason they lose their value or become unfit for use if they are stored or transacted for a long time.

(ii) Door-to-Door Sales:

Manufacturer employed salesmen for a door-to-door marketing. They move door-to-door to introduce the new product at the door of a customer. Dealers may not have knowledge of the goods or they require a good margin of profit or they do not want to stock unknown products; for them this system is good.

Selling under this system may be costly but when the market is known, it can be reduced. But, at the first stage, when the market is unaware of the product, even at higher cost, this system is better.

(iii) Sales by Mail Order Method:

Here the post office plays a significant role and it is known as shopping by post or mail order business or selling by post. It is an impersonal selling, branding, grading, standardising, packaging etc., facilitating the growth of this system.

By Post, customers are approached by sending catalogues, price lists, pamphlets, etc. Advertising adds further speed in the selling; e.g., books, copies, Magazines, Medicines, watches, toys, small appliances, clothes, seeds, jewellery, etc.

(iv) Sales by Opening Own Shops:

The producers of perishable and non-perishable goods sell their products to customers, by opening their own retail shops. Manufacturers can push the goods quickly through retail shops and can offer satisfactory service to customers, thereby building goodwill. It also helps the producers to study the market trends, fashion preferred by buyers and style trend of people. This system offers a two way communication and the price is regulated.

Perhaps, there are few drawbacks of adopting Direct Marketing Channels are given as under:

(i) When customers are innumerable and spiral over a large area, it may be difficult to have direct contact with them economically.

(ii) When customers are multi-millions in number, it may be difficult to establish a direct contact with them.

(iii) When the producers do not prove to be good salesman, the process suffers.

B. Indirect Channel:

Under this system, distribution of goods is performed by middlemen or intermediaries like wholesalers' stockiest distributions etc. There is one middleman like a Sole Selling Agent who distributes the goods through a number of middlemen subsequently or, there may be a number of middlemen when the producer distributes the products through a number of agents or wholesalers or even retailers. Retailer sells directly to the consumers whereas wholesalers sell through them.

Typical Indirect Channels of Distribution has four level of channels discussed as under:

(i) One-level Channel Only one intermediary between producer and consumers is present here. It may be a retailer or a distributor.

In case the intermediary is a distributor, this type of channel is used for specialty products like washing machines, refrigerators or industrial products.

(ii) Two-level Channel – Two intermediaries, namely, wholesaler/distributor and retailer and present here.

(iii) Three-level Channel – Three intermediaries, namely, distributor, wholesaler and retailer are present and it is also used for convenience products.

(iv) Four-level Channel – Four intermediaries, namely, agent, distributor, wholesaler and retailer are present here. This channel is similar to the previous two. This type of channel is used for consumer durable products also.

C. Hybrid Distribution Channel or Multi-Channel Distribution System:

Of late, many companies used a single channel to sell to a single market or market segment. Recently, with the proliferation of customer segments and channel possibilities, several companies have adopted multi-channel distribution systems, it is often called hybrid marketing channels. Multi-channel marketing like these occurs when a single firm sets up two or more marketing channels to reach one or more customer segments. The use of hybrid channel systems has increased greatly in recent years.

The producer sells directly to consumer segment 1 using direct mail catalogues and telemarketing, and reaches consumer segment 2 through retailers. It sells indirectly to business segment 1 through distributors and dealers, and to business segment 2 through its own sales force.

Hybrid channels have advantages to offer to companies facing large and complex markets. With each new channel, the company expands its sales and market coverage and gains opportunities to tailor its products and services to the specific needs of diverse customer segments.

But such hybrid channel systems are harder to control, and they generate conflict as more channels compete for customers and sales. For instance, when IBM began selling directly to customers at low prices through catalogues and telemarketing, many of its retail dealers cried "unfair competition" and threatened to drop the IBM line or to give it less emphasis.

Retailing

1. What is retailing?

Ans: Retailing is a distribution process, in which all the activities involved in selling the merchandise directly to the final consumer (i.e. the one who intends to use the product) are included. It encompasses sale of goods and services from a point of purchase to the end user, who is going to use that product. Any business entity which sells goods to the end user and not for business use or for resale, whether it is a manufacturer, wholesaler or retailer, are said to be engaged in the process of retailing, irrespective of the manner in which goods are sold.

Retailer implies any organization, whose maximum part of revenue comes from retailing. In the supply chain, retailers are the final link between the manufacturers and ultimate consumer.

2. Types of Retailing

- Ans: **Store Retailing**: Department store is the best form of store retailing, to attract a number of customers. The other types of store retailing includes, speciality store, supermarket, convenience store, catalogue showroom, drug store, super store, discount store, extreme value store. Different competitive and pricing strategy is adopted by different store retailers.
- **Non-store Retailing**: It is evident from the name itself, that when the selling of merchandise takes place outside the conventional shops or stores, it is termed as non-store retailing. It is classfied as under:

Direct marketing: In this process, consumer direct channels are employed by the company to reach and deliver products to the customers. It includes direct mail marketing, catalog marketing, telemarketing, online shopping etc.

Direct selling:Otherwise called as multilevel selling and network selling, that involves door to door selling or at home sales parties. Here, in this process the sales person of the company visit the home of the host, who has invited acquaintances, the sales person demonstrate the products and take orders.

Automatic vending: Vending machines are primarily found in offices, factories, gasoline stations, large retail stores, restaurants etc. which offer a variety of products including impulse goods such as coffee, candy, nnewspaper, soft drinks etc.

Buying service: The retail organization serves a number of clients collectively, such as employees of an organization, who are authorized to purchase goods from specific retailers that have contracted to give discount, in exchange for membership.

Corporate Retailing: It includes retail organizations such as corporate chain store, franchises, retailer and consumer cooperatives and merchandising conglomerates. There are a number of advantages that these organizations can achieve jointly, such as economies of scale, better and qualified employees, wider brand recognition, etc.

With the emergence of new forms of retailing, competition is also increasing between them. It is one of the fast-growing and challenging industry.

3. Why Is Retailing Important?

Retailers are the final link in the supply chain between manufacturers and consumers. Retailing is important because it allows manufacturers to focus on producing goods without having to be distracted by the enormous amount of effort that it takes to interact with the end-user customers who want to purchase those goods.

Retailers should make the purchase of goods easy for the consumer. That's why retail stores have salespeople, why Internet shopping websites have customer service instant chat popups, and why catalogs have descriptions, photos, and toll-free phone numbers.

Retailing is about displaying products, describing the features and benefits of products, stocking products, processing payments, and doing whatever it takes to get the right products at the right price to the right customers at the right time. Some retailers offer additional services to the retail transaction like personal shopping consultations and gift wrapping to add something extra to the retail customer experience and exceed the retail customer experience.

4. <u>Chain Store</u>

A chain store is a group of similar retail shops that sell the same type of goods. All these shops or branches are under the control of the head office. Branches are opened in different parts of the city or even in different parts of the country.

Chain stores specialize in a particular product. The same product is offered in different varieties and in different models.

Thus, while a departmental store draws customers to it, chain stores approach the customers. This is done by the opening of branches in all parts of the country. ‘Bata Shoe Company’ is a good example of a chain store. ‘Arun Ice-Creams’ is yet another example.

Another advantage of the system of chain stores is that it eliminates the wholesalers totally. It establishes direct contacts with the buyers.

Advantages of Chain Stores

1. Chain stores specialize in a particular product.

2. Such stores can cater to the needs of people in different localities.

3. Central location and luxurious premises are not required for chain stores.

4. There is economy in advertising. It is not necessary to advertise for each branch.

5. It is easy for the head office to identify an unprofitable branch and shift it to some other place. If it is not feasible it may even be closed down.

6. Chain stores work only on cash basis. Bad debts, therefore, are totally eliminated.

7. The floor space required for a chain store is much less when compared with a departmental store.

8. Such a store does not require many sales personnel.

9. If any branch has shortage of stock, it can draw from the nearest branch.

10. The overall cost of operation of a chain store is much less when compared with a departmental store.

11. As wholesalers are eliminated, the cost of distribution is bound to be less.

12. ‘Uniform price’ in all the branches is yet another plus point of Chain stores.

Disadvantages of Chain Stores

1. As chain stores deal only in a particular item, they may not attract many customers.

2. The head office may find it difficult to exercise control over a number of retail outlets/branches established throughout the city/country.

3. The central office also has to maintain the relevant accounts in respect of every shop and this again is a tedious process.

4. The product quality, price etc., are decided by the controlling office. The retail shops have to sell what is supplied to them.

5. The retail outlets also have to be in touch with central office to get the stocks replenished. There is also scope for delay.

6. Absence of credit sales in such a business again is a barrier.

7. Indiscriminate opening of branches without taking into account the buying potentials of each place may result in loss.

5. **Specialty Stores:**

A small retail outlet that focuses on selling a particular product range and associated items. ... Consumer outlets such as candle stores or photo shops that offer unique, often individualized products or a large amount of products within a particular grouping of consumer goods are considered to be specialty stores.

Advantage:

1.Specialization and Expertise

One of the key benefits of a specialty store is its focus on a single class of products. This gives owners and employees a chance to develop expertise and a reputation for knowledge and selection within the store's defined specialty. A specialty store can carry more goods within its chosen category, drawing enthusiasts who can't find what they want specifically at a general retailer. Specialty stores also become gathering places for enthusiasts, especially if owners organize special events and product demonstrations.

2. Knowledgeable Staff

Specialty stores have an advantage when it comes to staffing and training. Employees only need to know or learn about one type of merchandise. For example, a sporting goods store can employ sales staff with backgrounds in team sports and personal fitness. This provides an advantage over general retailers, whose staff are less likely to know about all of the products available to customers. A sporting goods store also can recruit employees by advertising in a fitness magazine, targeting people with an interest in a field related to its products.

Disadvantage:

1. Lack of Variety

By definition, specialty stores lack variety. While they may sell many different specific products, they all fall into a single category or classification. This means that shoppers are only likely to come to the store when they have interest in the type of products it sells. This is a contrast to department stores, which can draw customers in with one type of product and expose them to many other types of products while they shop. Specialty stores can be less convenient than general retailers, driving customers to one-stop options if they are available locally.

2. Reliance on Market

Another drawback for a specialty store is its financial reliance on a single market. While department stores can shift their inventories to accommodate changing trends in consumer buying, specialty stores risk alienating customers if they alter their offerings too much. For example, a stationary store will see a dip in sales if customers begin using online cards in place of mailed greeting cards. However, adding office furniture to the store's selection of merchandise would harm its image as a local source for stationary and leave less space for the wide selection of cards that made the store appeal to customers in the first place.

6. Supermarkets:

The large retail store operated on a self-service basis, selling groceries, fresh produce, meat, bakery and dairy products, and sometimes an assortment of nonfood goods. Supermarkets gained acceptance in the United States during the 1930s. The early stores were usually located in reconverted industrial buildings in outlying areas; they had no elaborate display facilities, and their primary advantage was their low prices. During the 1940s and ’50s, they became the major food-marketing channel in the United States, and in the 1950s they spread through much of Europe. The extent to which they have succeeded in various countries has depended on the ability or willingness of producers and wholesalers to adapt their operations to large-scale retailing. The spread of supermarkets has been part of a trend in the developed countries toward reducing costs and simplifying the pattern of marketing.

Advantages of Supermarket:

a) Saving in labour cost due to self-service system.

b) Supermarket has large turnover.

c) Reasonable or low prices of goods.

d) Low cost of operation.

e) Freedom of selection.

f) Shopping is very easy and quick.

g) Due to adequate parking space, shopping becomes easy and pleasing activity rather than boredom.

h) High margin of profit to organizers.

i) Advantages of large scale operations.

Disadvantages of Supermarket:

a) Supermarket requires huge financial resources.

b) It is normally situated at a long distance from the residential localities.

c) Threre is lack of personal attention.

d) Supermarket does not provide various services such as free home delivery, personal guidance, credit facility and after sales service.

e) It faces the problem of co-coordinating activities of various sections of the market.

f) It requires large and extensive premises.

g) Goods which require explanation by salesman cannot be sold in such markets.

7. Retailing in India (Recent Trends)

Retailing today is the fastest growing sectors in the global economy and is under transition phase; not only in South Asian countries like India and China but throughout the world. The increased popularity of organized retailing is mainly because of the consumers' changing behavior. This change has become possible due to double income families, breakup of joint family concept, changing lifestyles and favorable demographic patterns. Today consumers prefer to shop at places where they can get grocery, food, entertainment and others daily routine items under one roof. This has made retailing the most attractive sector of the Indian economy.

Following are the recent trends that have stood out in recent years and continue to grow further:

1. New retail formats and combinations are emerging and have opened a new world of opportunities for Indian youth. Due to huge amounts of new investments and decreasing charm for ‘kirana’ stores, the retail sector is expected to grow. Bank branches, bill counters, saloons, internet cafe have opened in the malls. The ‘cash and carry’ activities are expected to grab majority of attention.

2. Internet age, increased computer awareness and shrinking usage charges have made people enabled buy things online resulting in growth of non-store retailing. Retailers are informing about new arrivals/fresh stock through e-mails, television, SMS and telephones to which anyone can respond to through toll-free 16 digit numbers.

3. Specialty stores like ‘Reliance Digital’, ‘Music World’ ‘Metal Junctions’, ‘Nokia World’ and ‘Pantaloons’ have their presence in most of the malls in the country. Departmental stores have given way to malls, having a mixture of large and small retailers offering varied brands for each and every section of the society.

4. Sales promotion channels are increasingly becoming professional and targeting differently to different lifestyle groups. Newer and newer promotional techniques are emerging. Event managers are hired and visual merchandising professionals are consulted.

Today retailers are not sticking to traditional methods of promoting a sale but personal selling door-to-door selling, free home delivery and payment through plastic money have emerged and is being widely used. Use of advanced technology is not the matter of affordability but is the reason for survival. Retailers are using computers, electronic devices, check out scanning systems, tag guns, vending machines, money counters and digital signage to enhance store’s productivity. CCTVs, cameras, sensors and theft alarms are being used to prevent store theft.

5. Today retail organizations are not only targeting big cities but are considering tier II and tier III cities like Jaipur, Pune, Shimla, Karnal, Panipat, Coimbatore, Baroda, Chandigarh etc also. The South Indian states are one step ahead when it comes to shopping in the supermarkets for day-to-day needs and also have been influencing other states where supermarkets are being established.

However, the main center of organized retailing is undeniably Chennai, which once was considered as a ‘conservative’, ‘traditional’ and cost-sensitive’ market. The success of Chennai as retail hub has surprised all but list of factors contributed to its success. Reasonable real estate prices, double household income, increased presence of MNCs and industrial boom has led to the emergence of new residential societies resulting in increased purchasing power and demands for day- to-day goods under one roof.

6. Use of Plastic Money:
Use of credit and debit cards for buying merchandise is relatively a new phenomenon but is gaining popularity immensely. Credit and debit cards are commonly known as ‘plastic money’. Today, especially in metros, retail spending is mainly done by plastic cards, accounting for over 45 percent and is likely to touch 65 percent over the next five years.

7. Distance – No bar:
Thanks to increased public transportation, better roads, highways and an overall improvement in the transportation infrastructure that has enabled customers to visit from one place to another smoothly than ever before. Now for want of quality goods, a customer can travel several kilometers to reach a particular store.

8. Partnerships and tie-ups among retailers, real estate developers, brands, franchisees, and financers have become the fashion of the day to spread risk related to huge investments and uncertainty.

9. The government infrastructure support, relaxation on foreign direct investments further has accelerated the growth of Indian organized retail sector. Consequently, the shopping malls are coming up throughout the country in a big way.

10. Sophisticated customers:
Due to Internet revolution, customers are becoming conversant about the products they are interested in buying. For example, over thirty percent of Indian consumers collect information from the Internet about prices, features, guarantee/warranty options before visiting any store for the actual purchase.

This is particularly true in case of automobiles, cell phones, consumer electronics, hotel bookings, travel packages etc. This suggested the retailers that they need to respond to varying consumer needs and growing assortment.

11. The gap between organized and unorganized (traditional 'kirana' shopping) retailing is coming close due to mall revolution and increasing Indian middle class in terms of size and income. According to a study conducted by 'Deloitte Haskins and Sells', one of the four largest accounting firms in the world, Indian retailing is growing at a faster pace as was expected from it and could constitute 25% of the total retail sector by 2011.

The study further reveals that new malls, increased disposable income and easy access to credit facilities have led to organized retailing to record all time high rate of growth of 50% per annum in 2007. The traditional 'kirana' stores by introducing modern retailing concepts such as self service, free home delivery system, credit facility and other value added services have been trying to reshape themselves.

12. Need for retailing skills:
Undoubtedly, retailing in India is still in nascent stage. The success of organized retailing is yet to be proved. The success will be felt once an equitable stage is achieved. This requires enough store size, traffic flow, and revenue earned, but besides these factors, retailers have started concentrating on recruiting qualified and trained retail staff.

Following are the areas where specialized skills are increasingly felt:
(a) Managing Merchandise:
inventory management, vendor selection, presenting merchandise, pricing the merchandise, planning and implementing merchandise assortments.

(b) Store operations and management:
Layout, inventory management, buying, store keeping, customer relationship, objections handling, visual merchandising.

(c) Strategic management:
Strategic planning, targeting, positioning marketing, site location, building and creating sustainable advantage.

(d) Administration:

Marketing, finance, human resource and so on.