MARKETING MANAGEMENT

UNIT-3 PART-I

CHANNELS OF DISTRIBUTION

MEANING OF DISTRIBUTION CHANNEL

A distribution channel or a conveyance channel is a chain of organisations or its middlemen or intermediaries through a distribution channel chain, a service or a product is moved or proceeds until this arrives at the end consumer or the final purchaser of that specific goods or service. Distribution channels might incorporate retailers, wholesalers, and surprisingly even web facilities.

A distribution channel is, in fact, a downstream interaction, which addresses the inquiry "How might the items be made accessible to the customer?" In most organisation's conveyance channel is considered an advertising technique or marketing strategy that incorporates the goods, its pricing and promotional activities.

A distribution channel is a course by which each one of the services and products travels to the designated purchaser. Additionally, the way can be depicted as the stream for payments produced using the end purchaser to the first merchant. Distribution channels can be long or even short, and this relies upon the number of go-betweens needed to convey a service or product to the market.

Meaning of Distribution Channel in Marketing:

A distribution channel in the advertising area associates the connection between the maker and the buyers. Channels of conveyance upgrade the effectiveness of promoting and help in planning their objectives to outsmart their clients. This occurs for the intermediaries or middlemen who have a capability in the distribution framework. This additionally diminishes the expense of exchange and hence smoothens the whole interaction.

Wholesalers in this channel bring forth marketing services as well ad sales. This framework empowers the organisations to arrive at their drawn-out or extended market.

IMPORTANCE OF DISTRIBUTION CHANNEL

Distribution channels have a very efficient role in the smooth functioning of businesses. Some of the importance are discussed below:

(a) Timely Delivery of Products

This is one of the important function of distribution channels. Distribution channel helps in the delivery of products to customers on the right time. If products are not available at the right time to customers, it may disappoint him.

It has removed all distance barriers for businesses while performing their operations. Distribution channels have made it possible for businesses to serve customers even at far distant places.

(b) Maintain Stock of Products

Distribution channel has an efficient role in maintaining sufficient stocks of goods. It helps in maintaining the supply of goods as per the demands in the economy. Distribution channels performs functions of storing the products in warehouses & supplying them according to demand in the market. It avoids all cases of shortage of supply of goods in market.

(c) Provides Market Information

Distribution channel is served as the medium through which business acquire all required information from the market. It takes all information like demand, price & nature of competition in the market from its different intermediaries involved in its distribution channel. Also, customers provide information & various suggestions to producers through these channels. It helps in formulating strategies according to that.

(d) Promotion Of Goods

Distribution channels helps in marketing & promotion of products. There are several middlemen's who are involved in the distribution system of businesses. These intermediaries inform the customers about the product.

They introduce them with new products & explain them to its specifications. Customers are induced & motivated to buy these products by intermediaries. Hence, the distribution channel has an efficient role in promotion & marketing of goods.

(e) Provide Finance

Business gets financial assistance from the distribution channel. Intermediaries involved in distribution channel buys goods in bulk from producers. These intermediaries give payment to producers while purchasing.

Then these middlemen sell these goods to customers in quantities demanded by them. They even provide credit facilities to the customers. However, producers get timely payment & are saved from blocking of their funds through credit selling. Therefore, distribution channel regulation the funds' movement of businesses.

(f) Generates Employment

Distribution channel generates employment in the economy. There are huge number of peoples who are involved in the distribution system of businesses. These people are wholesaler, retailers & different agents. All these people earn their livelihood through working in these distribution channels. Therefore, distribution channels are creating employment opportunities for peoples.

(g) Distribution Of Risk

Risk is something which is associated with each & every business. Distribution channels save the producers from the risk of delivering products to customers safely & timely.

It becomes the duty of intermediaries that are involved in the channel to deliver it to customers timely. Producers focus only on their production activities & don't need to consider issues about delivering products.

TYPES OF DISTRIBUTION

There are several approaches brands can take to distribute their goods, products and services – especially now that digital channels stand shoulder to shoulder with traditional, physical outlets.

These are the 8 most important distribution channels to know:

1. Direct Sales

A direct sales business model eliminates any intermediary in the distribution process, leaving the brand to sell products to customers on its own. That means there's no retailer or third-party outlet to stock inventory and promote products.

Arguably the most visible example of a direct sales approach comes courtesy of Apple. In many cases, customers need to go through the brand itself to buy software, devices and other products. Apple manages its own physical shops and digital stores where it prefers to sell its wares. It does have a presence in third-party brick-and-mortar retail outlets, but the company tries to direct potential and returning customers to its branded stores.

A more rigid example of direct sales would be a business that creates products and goods on-site and sells to the customers in the same location. For instance, bakeries employ a strict, direct sales business model, assuming their goods can only be found in their stores.

2. Retailer

Retail is the most common distribution channel for consumer brands, using third-party outlets to bring products to market. Supermarkets, big-box stores, convenience stores and department store all act as intermediaries and the point of contact for customers. You don't go to the Jif store to buy peanut butter, after all.

Not all retail distribution strategies take the same approach, however. Depending on the brand, product and audience, they may aim for the widest market penetration possible, while others focus on establishing exclusivity by limiting availability.

3. Intensive Distribution

Consumers are probably most familiar with this form of retail distribution, where products are sold through as many outlets as possible. Take Jif, for instance. You can find the brand in virtually any grocery store and convenience store in the United States, regardless of the market or location. Jif has an enormous market penetration, and is one of a handful of peanut butter brands that are ubiquitous across the country.

This style of retail distribution is best-suited for goods and products that rarely command a great deal of brand loyalty. If a customer's preferred brand is unavailable, they are perfectly fine buying another product at a similar price point. For most consumers, if Skippy's sold out, Jif's an acceptable alternative.

Intensive distribution gives brands the largest presence possible, reaching more potential customers across disparate markets. Only a select few brands can achieve that high level of distribution. Inventory management, supply chain logistics and marketing demands all become incredibly complicated with an intensive distribution strategy, and many companies simply do not have the resources or capabilities to make this approach work.

This approach is a poor fit for niche products with limited appeal. Those brands require a more targeted strategy that zeroes in on their target audiences. Luxury products with high price points may also suffer with intensive distribution, as lower quality offerings can easily undercut them and better appeal to less discerning shoppers.

4. Selective Distribution

Not all companies that sell through retailers are looking to achieve the widest distribution possible. Luxury brands are often highly selective about where their products are placed and how they are represented. You won't find Hermes handbags in a big-box store, for instance. For those companies, the in-store experience is part of their brand and they tightly regulate retail displays and even how clerks describe or demo their products.

Selective distribution makes sense when brands and products cannot be swapped out interchangeably. Target audiences are extremely discriminating and are willing to travel to specific outlets where their preferred brands are available.

5. Exclusive Distribution

Selective distribution strategies still use a variety of intermediaries and outlets to sell wares, but brands have an even more discerning option to consider: exclusive distribution. Under this business model, companies partner with a single wholesaler or retailer in a particular market. The idea is to restrict availability to protect brand equity and project a more selective and exclusive brand image.

Rolex is one of the more famous examples of exclusive distribution. The company partners with one wholesaler in each market to control precisely where its products are sold and how they are represented. Even though a third party is the final point of contact with the end user, Rolex can still dictate the in-store experience, creating strict brand guidelines for clerks and agents to follow.

Brands also tend to have more leverage in exclusive distribution relationships since wholesalers, retailers and distributors are dependent on the presence of luxury, high-quality products to appeal to their upscale and discerning clientele. Manufacturers are in a stronger position to negotiate distribution and marketing costs with their intermediaries since there are few alternatives to take their place on store shelves.

An exclusive distribution partner agency can also be a huge asset when expanding into new markets. Distributors already have a presence in these markets and understand what motivates local customer bases. That means less risk for businesses that want to reach international audiences, but are concerned about the logistics involved in such a move.

Obviously, exclusive distribution is reserved only for luxury brands where product scarcity isn't just acceptable – it's expected.

6. Dual Distribution

Many businesses choose to use a variety of distribution channels to sell their products, working with wholesalers and retailers while also maintaining brand storefronts to sell directly. This approach is known as dual distribution. The Apple example we cited earlier is one instance of dual distribution, although it leans more toward the direct-to-customer end of the spectrum.

Smartphones, in general, highlight this approach, as manufacturers sell their devices through big-box stores, telecom partners, e-commerce markets and their own online store fronts.

Dual distribution allows brands to reach a large audience with varied purchase options. It makes perfect sense for smartphone manufacturers to partner with wireless service providers because customers can't use one without the other. Many users will naturally want to sign up for a wireless plan when they buy a new smartphone, so why not make those devices available in wireless stores?

7. Wholesaler

Like retailers, wholesalers act as middlemen that buy products from manufacturers and then sell those goods to end users at an increased price point. The biggest differences between these business models are scale and audience.

As anyone who's shopped at Costco or Sam's Club can tell you, products are purchased in bulk from wholesalers. Customers wind up spending less money per unit while buying large quantities of a particular product.

Although consumer-facing membership warehouses are the most visible examples of wholesale distribution channels, most wholesalers sell to other businesses. Restaurants, for instance, buy their equipment from wholesale providers. Certain retailers may purchase products in bulk from a wholesaler and then sell those goods to consumers individually at a higher price point.

Brands benefit from wholesale distribution by moving large volumes of products at once. The trade-off is wholesalers expect discounts and reduced rates in exchange for buying in bulk.

Another factor to consider is that manufacturers can avoid the logistical challenges of selling directly to customers. There's no store to manage, on-site personnel to train or inventory to stock. Once products have changed hands, those issues are someone else's concern.

That also means brands have limited – if any – say about how their products are handled and displayed. They can address those concerns by creating brand guidelines for distributors to follow, but there is some added cost to conduct on-site reviews and assess compliance.

8. Channel Partners or Value-Added Resellers

Many B2B companies sell through the channel. That is, they don't sell directly to end users, but work with channel partners that buy their wares, repackage them and then sell to their own customers.

MIDDLEMAN AND ITS FUNCTION

- A middleman plays the role of an intermediary in a distribution or transaction chain who facilitates interaction between the involved parties.
- Middlemen can be classified into two categories, namely, merchants and agents. While merchants buy and re-sell their goods, agents specialize in negotiations of selling or buying transactions.
- They provide manufacturers with valuable market feedback and let them concentrate on production by providing the ancillary services of warehousing, distribution, advertising, insurance, finance, etc. They make goods and services easily available to consumers in the desired quantity.

Types of Middlemen

Middlemen can be classified into two categories, namely merchants and agents.

1. Merchants

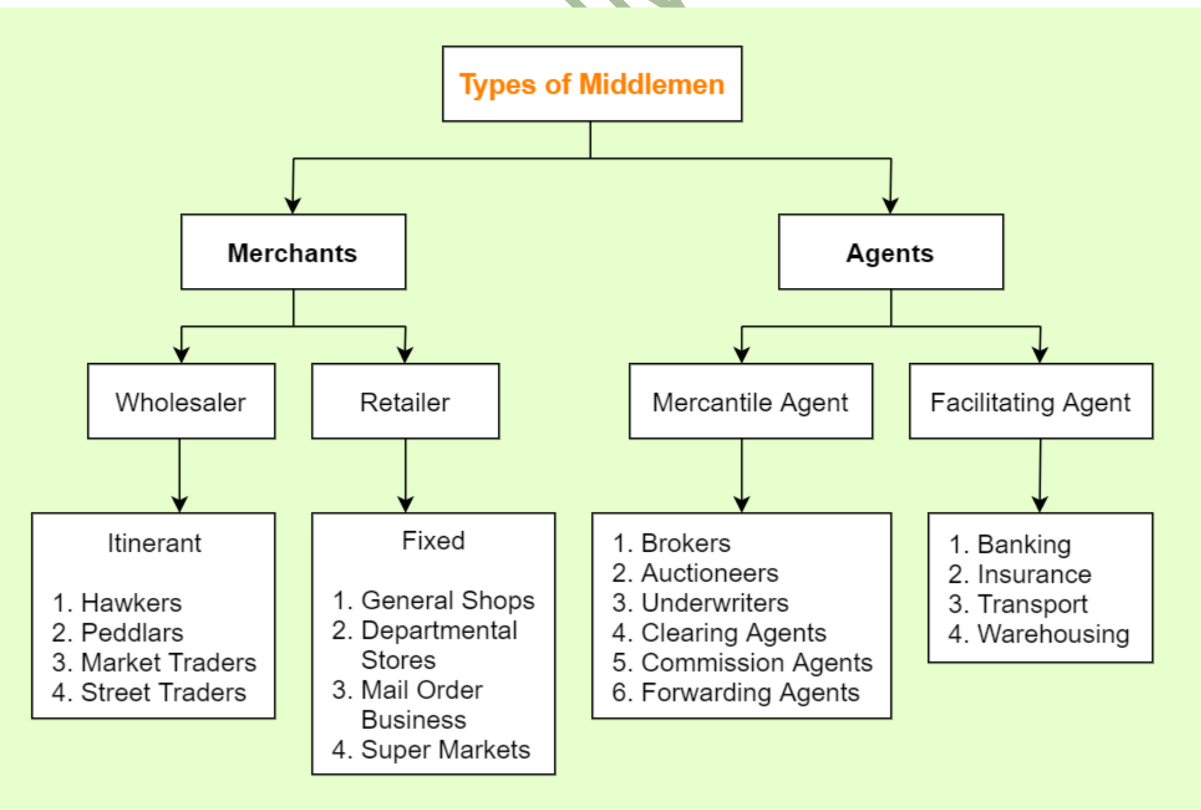
Merchants, such as wholesalers and retailers, buy and re-sell their goods. They take ownership of inventory and bear the expense of storing and distributing the product. They make money by selling the goods at a higher price than its cost to them. The difference is called the "markup."

Merchant middlemen range from a shopkeeper to a large multinational corporation with international operations. Larger middlemen may focus on a core competency, such as delivery, advertising, warehousing, or a particular market segment.

2. Agents

Agents, such as brokers or real estate agents, specialize in negotiations involved in transactions. They do not take ownership of what they are selling. Instead, they make money by charging a commission or a fee for facilitating a transaction.

For example, brokers act as intermediaries between investors and the securities exchange. They provide trading services, investment advice, and solutions to their clients and charge a brokerage fee in return.



Functions of Middlemen

Middlemen perform the following functions in a marketplace:

- They provide valuable information and feedback to producers about consumer behaviour, changing tastes and fashions, upcoming rival businesses, etc.
- They enable manufacturers to concentrate on the primary function of production by handling the ancillary functions of warehousing, distribution, advertising, insurance, etc. They promote the goods to the consumers on behalf of the producers.
- Middlemen like banks and other financial institutions render financial services to manufacturers.
- They make the goods and services available to consumers at the right place, at the right time, and in the right quantity.
- Buyers and sellers are often unwilling to assume the market risk for fear of a possible loss. It is the middlemen in the process chain who assume the risks of theft, perishability, and other potential hazards.

Importance of Middlemen

Intermediaries are important players in every market. Both consumers and producers stand to benefit from their services. In addition to constantly matching the supply and demand in the market, middlemen provide valuable feedback to the producers about their market offering. By specializing in functions such as banking, warehousing, transportation, underwriting, etc., they bring the economic benefits of specialization and division of labour to the market.

Buyers gain access to the right quantities of goods and services close to their homes through the intermediary channels. They benefit from other services of middlemen, such as advertising and delivery.

<u>Retailing And Wholesaling</u>

Retailing and Wholesaling consists of all the activities which includes the selling of goods and services directly to the end consumers for their personal use or for non-professional use. A retail market is an enterprise where all the goods are available under one room serving for the purpose of convenience to the customers and whose large sales volume comes from the process of retailing. Any organization who is serving for the purpose of providing goods to the customer is doing retailing. Here in this post, we are going to discuss Retailing and Wholesaling to understand the topic.

There are different types of retail stores that are made available for the customers, these are:

1) Speciality Stores- these stores offer a narrow product line.
2) Departmental Stores- these types of stores offer various product lines.
3) Discount Stores- these are low price and high volume standard stores.
4) Supermarkets- these are low cost ,high volume self-service stores specially designed to meet all the household needs of the customers.
5) Convenience Stores- these are the small stores in the residential areas which offer high range of convenience products and are opened all day long.
6) Off price Retailer Stores- these are for the left over goods which are not available anywhere and are sold at low rate, like factory outlets and are independent off retailers.
7) Superstores- these stores have a huge space for selling goods, they include all the food and household items and also offers services to the customers.