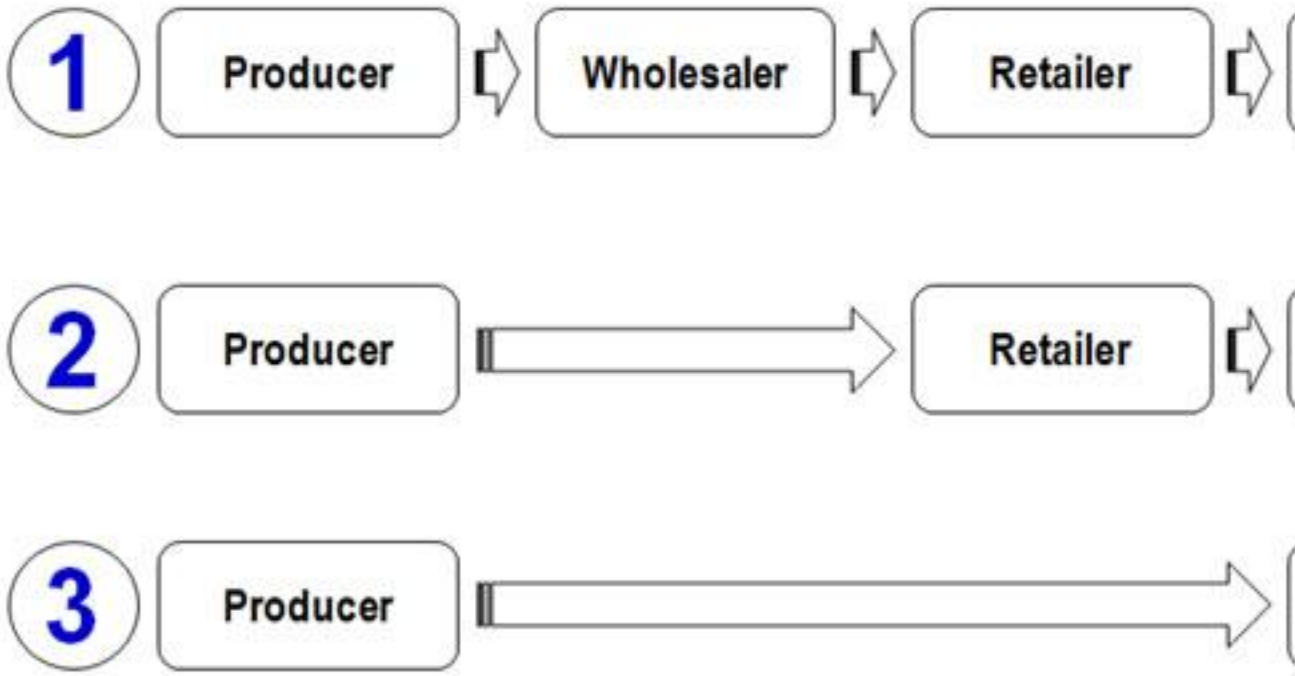
Distribution Channels

Author: Jim Riley ***Last updated:*** *Sunday 23 September, 2012*

Each layer of marketing intermediaries that performs some work in bringing the product to its final buyer is a "channel level". The figure below shows some examples of channel levels for consumer marketing channels:



In the figure above, the first two channels are "indirect-marketing channels".

Channel 1 contains two intermediary levels - a **wholesaler** and a **retailer.** A wholesaler typically buys and stores large quantities of several producers' goods and then **breaks into the bulk** deliveries to supply retailers with smaller quantities. For small retailers with limited order quantities, the use of wholesalers makes economic sense. This arrangement tends to work best where the retail channel is fragmented - i.e. not dominated by a small number of large, powerful retailers who have an incentive to cut out the wholesaler. A good example of this channel arrangement in the UK is the distribution of drugs.

Channel 2 contains one intermediary. In consumer markets, this is typically a retailer. The consumer electrical goods market in the UK is typical of this arrangement whereby producers such as Sony, Panasonic, Canon etc. sell their goods directly to large retailers and e-tailers such as Comet, Tesco and Amazon which then sell onto the final consumers.

Channel 3 is called a "**direct-marketing" channel**, since it has no intermediary levels. In this case the manufacturer sells directly to customers. An example of a direct marketing channel would be a factory outlet store. Many holiday companies also market direct to consumers, bypassing a traditional retail intermediary - the travel agent.

What factors should be taken into account in choosing the best distribution channel? Here is a summary:

Nature of the product

- Perishable/fragile? A product with a short-life
- Technical/complex? Complex products are often sold by specialist distributors or agents
- Customised? A direct distribution approach often works best for a product that the end consumer wants providing to a distinct specification
- Type of product - e.g. convenience, shopping, speciality
- Desired image for the product - if intermediaries are to be used, then it is essential that those chosen are suitable and relevant for the product.

The market

  - Is it geographically spread?
  - Does it involve selling overseas (see further below)
  - The extent and nature of the competition - which distribution channels and intermediaries do competitors use?

The business

  - Its size and scope - e.g. can it afford an in-house sales force?
  - Its marketing objectives - revenue or profit maximisation?
  - Does it have established distribution network or does it need to extend its distribution option
  - How much control does it want over distribution? The longer the channel, the less control is available

Legal issues

  - Are there limitations on sale?
  - What are the risks if an intermediary sells the product to an inappropriate customer?

Distribution (Place) - Introduction

Author: *Jim Riley* ***Last updated:*** *Sunday 23 September, 2012*

Place (or its more common name "distribution") is **about how a business gets its products to the customers**.

It is one thing having a great product, sold at an attractive price. But what if:

- Customers are not near a retailer that is selling the product?
- A competing product is stocked by a much wider range of outlets?
- A competitor is winning because it has a team of trained distributors or sales agents who are out there meeting customers and closing the sale?

Distribution matters for a business of any size – it is a crucial part of the marketing mix.

The objective of distribution is clear. It is to:

To make products available in the right place at the right time in the right quantities

Distribution is achieved by using one or more **distribution channels**, including:

- Retailers
- Distributors / Sales Agents
- Direct (e.g. via e-commerce)
- Wholesalers

A distribution channel can be defined as:

"all the organisations through which a product must pass between its point of production and consumption"

Looking at that definition, you can see that a product might pass through several stages before it finally reaches the consumer. The organisations involved in each stage of distribution are commonly referred to as **"intermediaries".**

Why does a business give the job of selling its products to intermediaries? After all, using an intermediary means giving up some control over how products are sold and who they are sold to. An intermediary will also want to make a profit by getting involved.

The answer lies in efficiency of distribution costs. Intermediaries are specialists in selling. They have the contacts, experience and scale of operation which means that greater sales can be achieved than if the producing business tried to run a sales operation itself.

The main function of a distribution channel is to provide a link between production and consumption. Organisations that form any particular distribution channel perform many key functions:

Information	Gathering and distributing market research and intelligence - important for marketing planning
Promotion	Developing and spreading communications about offers
Contact	Finding and communicating with prospective buyers
Matching	Adjusting the offer to fit a buyer's needs, including grading, assembling and packaging
Negotiation	Reaching agreement on price and other terms of the offer
Physical distribution	Transporting and storing goods
Financing	Acquiring and using funds to cover the costs of the distribution channel
Risk taking	Assuming some commercial risks by operating the channel (e.g. holding stock)

All of the above functions need to be undertaken in any market. The question is - who performs them and how many levels there need to be in the distribution channel in order to make it cost effective?