5.0 CHANNEL STRUCTURES

5.1 MARKETING FUNCTIONS

The marketing channel structure incorporates the operations and interactions of various marketing institutions. These institutions, in the process of interacting provide time, place, possession and form utilities. It is in the framework of these institutions that the import of the different marketing functions are to be viewed.

Marketing functions are categorised into three:

a. Functions of exchange - buying
   - selling

b. Functions of physical supply - transportations
   - storage

c. Facilitating functions - financing
   - risk taking
   - marketing information
   - standardisation and grading
5.1.1 A model of the marketing functions originally proposed by R.F Breyer (The marketing institution; New York: Mc Graw Hill; 1937 & Quantitative Systematic Analysis; New York: Mc Graw Hill; 1949) and reproduced by J.Taylor Sims et al (Marketing Channels; Systems and strategies; Harper & Row, New York 1977) is given in Figure 5.1.1

5.1.2 These marketing functions cannot be avoided or eliminated. The manufacturer, the consumer and the middlemen in the distribution process together make up the total network of marketing systems. The structure evolves from the functions that are to be performed. The elimination of a middleman, thus does not eliminate a function. It follows that, if a middle man is to be eliminated such functions will have to be performed by the manufacturer or by other middlemen. So the structure of channel systems would refer to the organisation of functional activities within each component of the channel systems and subsystems.

5.2 CHANNEL STRUCTURES OF SSI

The channel structures adopted by the Small Scale Industrial units follow the typical marketing channels for consumer goods, to some extent. Generally, channels
selected by the manufacturer depends on the product, consumer purchasing habits and the overall economic structure of the firm.

Depending on whether the product is an industrial product or a consumer product, the channel structure has to be defined. While direct sale to users is common in industrial products, a broad spectrum of middlemen become prominent in the case of consumer goods. The most common channel in the distribution of consumer goods is the manufacturer-wholesaler-retailer-consumer channel.

Figure: 5.1.1

THE PERFORMANCE OF MARKETING FUNCTIONS

selected by the manufacturer depends on the product, consumer purchasing habits and the overall economic structure of the firm.*

Depending on whether the product is an industrial product or a consumer product, the channel structure has to be defined. While direct sale to users is common in industrial products, a broad spectrum of middlemen become prominent in the case of consumer goods. The most common channel in the distribution of consumer goods is the manufacturer - wholesaler - retailer - consumer channel *.

(* Marketing Channels, systems and strategies; J Taylor Sims; J Robert Foster; Arch G Woodside; New York; Harper & Row Publishers; 1977)

This is only an attempt at generalisation, for field experience shows that a variety of channels are employed by many products. There is no single best channel suitable for all products.

The small scale industries, manufacturing food products in Ernakulam District have evolved their own channel systems. From the field survey, it is seen that the choice of channel structures has not been in all cases, a deliberate
effort. Interestingly, most of the units studied, have not defined their consumers in any definite manner. Since the market segments that are to be catered to have a direct bearing on the channels selected, it may be stated that the SSI units tend to have a casual approach towards channel selection.

The channels of distribution employed by the SSI units fall into two broad classes:

a. Those channels that include external contactual organisations.
b. Those channels that do not include external organisations.

5.3 MARKETING CHANNELS OF BREAD MANUFACTURING SSI UNITS

5.3.1 Bread has a shelf life of 3-4 days. This product which has an increasing demand in the state is available in an assorted range; quality, flavour, weight and packing being the distinguishing features. The addition of preservatives, it is reported, helps to increase the shelf life of bread upto one week. But this is done at the expense of taste and freshness.
In general, bread is distributed such that, the output of one day reaches the outlets by noon of the second day. This is to ensure that the bread is sold off from the outlets latest by the third day and consumed soon after.

5.3.2 Consumers

All the units studied had initially targeted their products at the enduse consumers. At the time of this study, it was found that 6% of the units sell their product exclusively to institutional buyers who use it for non-commercial purposes. An equal proportion sell a part of their output to institutional buyers, including caterers who use the bread for commercial purposes. The others continue to target their products to the end users.

5.3.3 Channels

Both institutional buyers and end-use consumers are being catered to by these units.

The channels used by these manufacturers are :-

a. With external organisations:

1. Manufacturers - Distributors - Wholesalers - Retailers - Consumers.


b. Without external organisations

1. Manufacturers - (Direct sales from production centre) - Consumers.

2. Manufacturers - (Door-to-Door sales by sales representatives) - Consumers (Institutional).

3. Manufacturers - Own outlets - Consumers.

The 'manufacturer - retailer - consumer' channel is the predominant one with 56% of the units using the same. Half the total units use their own outlets for marketing bread. While 38% of the units sell their entire output through own outlets, 25% use external retailers alone.

Units that utilise the services of distributors and wholesalers are those that distribute their products to centres beyond 30 km from the production site. These units have high production capacities and have capacity utilisation of over 60%. For physical distribution of their products, these units use own or hired vans or
There are cases where the units initially had franchise arrangements with large marketing organisations. But as they grew, they have set out on their own with their own brandname.

Those units that use only the retailers are also observed to reach centres beyond 30 km from their respective production sites. Hence the geographical spread viz-a-viz the type of channels employed, does not seem to be following any definite pattern.

The firms that market their bread through own outlets have a geographical reach of up to 5 kms. Table 5.3.1 provides the details of SSI units manufacturing bread, that were studied. The nearest selling point, the farthest selling point, installed capacity (annual-in Tons), capacity utilisation (maximum achieved - %) and channels employed are shown in the Table 5.3.1.

The flow of the product from manufacturers to consumers through various channels, as reported by the SSI units is depicted in Figure 5.3.1.
Table 5.3.1: Selling Point and Channel members of Bread manufacturing SSI units

<table>
<thead>
<tr>
<th>SL No</th>
<th>NSP</th>
<th>FSP</th>
<th>CAP (Ton)</th>
<th>C.U (%)</th>
<th>CHANNEL MEMBERS</th>
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</table>

Source: Primary data

Key:
- **NSP**: Nearest Selling point (distance in kms from the firm)
- **FSP**: Farthest Selling point (distance in kms from the firm)
- **CAP**: Installed Capacity (Tons)
- **C.U**: Capacity Utilisation (%)
- **F**: From factory; direct
- **S**: By self; door-to-door
- **O**: Own outlet
- **R**: Retailers
- **W**: Wholesalers
- **D**: Distributors
5.4 MARKETING CHANNELS OF BISCUITS MANUFACTURING SSI UNITS

5.4.1 The Biscuits manufactured by the SSI units are stated to have a shelf life of about one month. The changing lifestyle of the people of Kerala have influenced the market for branded and a wide variety of the items, mainly both in urban and rural areas. This could be one of the reasons for the success of branded their biscuits. The others, though, come to each variety of biscuits, do not have a brandname to get the items in the open market. But these items are sold under the general name. The demand for these items have to be supplied from larger established distributors in the district. They tend to depend more on the retailers. These retailers provide the shelf space, display and required promotion to generate sales.

FIGURE : 5.3.1
CHANNELS OF DISTRIBUTION – BREAD

MANUFACTURERS

- Own Outlet
- Direct sales from factory
- Whole-salers
- Distributors
- Whole-salers
- Retailers
- Retailers

INSTITUTIONAL BUYERS

CONSUMERS

BREAD – CHANNELS

INTERNAL ARRANGEMENT

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<tr>
<th>Code</th>
<th>Channel Description</th>
<th>Quantity</th>
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<td>ID</td>
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EXTERNAL ORGANISATIONS

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<th>Quantity</th>
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</tr>
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<td>EC</td>
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<td>Distributor - Retailer</td>
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CONSUMERS

<table>
<thead>
<tr>
<th>Code</th>
<th>Channel Description</th>
<th>Quantity</th>
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</thead>
<tbody>
<tr>
<td>CA</td>
<td>Domestic (Enduse) Consumers</td>
<td>15</td>
</tr>
<tr>
<td>CB</td>
<td>Institutional Buyers (Church)</td>
<td>1</td>
</tr>
<tr>
<td>CD</td>
<td>Institutional Buyers (Caterers)</td>
<td>1</td>
</tr>
</tbody>
</table>
5.4 MARKETING CHANNELS OF BISCUITS MANUFACTURING SSI UNITS

5.4.1 The Biscuits manufactured by the SSI units are stated to have mean shelf life of about one month. The changing lifestyle of the people of Kerala have influenced the market for biscuits and a wide variety of the items, branded and otherwise, are consumed extensively both in urban and rural sectors.

Being less perishable than bread, the time lag from production to the final sale is longer as compared to that of bread. The mean as stated by the SSI units is 29 days. This could be one reason for fewer number of channels, being engaged in the distribution of biscuits.

Very few manufacturers have branded their biscuits. The others, though they give a name to each variety of biscuits, do not have a general brandname to identify the items in the open market. Most of these items are sold under the general nomenclature, 'Bakery Biscuits'. Since these items have to compete with the branded items from larger established manufacturers, from outside the district they tend to depend more on the retailers. These retailers provide the shelf space, display and required promotion to generate sales.
5.4.2 CONSUMERS

The SSI units manufacturing biscuits are observed to cater to both institutional buyers and end-use consumers. The products are mostly aimed at end-use consumers, and all the units employ channels so as to reach these consumers. A few units sell their products to institutional buyers which include caterers.

5.4.3 CHANNELS

The marketing channels used by these SSI manufacturers are:

a. With external organisations:

1. Manufacturers - Wholesalers - Retailers - Consumers
2. Manufacturers - Retailers - Consumers

b. Without external organisations:

1. Manufacturers - Own outlets - Consumers (End use)
2. Manufacturers - Own outlets - Consumers (Institutional)

In the marketing of biscuits by the small scale units, the manufacturers - own outlets - consumers channel appears to be the most prominent one. 80% of the units use this channel. The manufacturer - retailer - consumer channel comes next with 40% of the manufacturers using the same.
The units that use their own outlet, are generally found to have a restricted geographical market. But there are cases where other institutional buyers make purchases from these outlets. In such cases the reach is even up to 10 km. See Table 5.4.1.

Table 5.4.1: Selling Point and Channel Members of Biscuits manufacturing SSI units

<table>
<thead>
<tr>
<th>SL No</th>
<th>NSP Ton</th>
<th>FSP %</th>
<th>CAP T</th>
<th>C.U %</th>
<th>CHANNEL MEMBERS</th>
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<td>0</td>
<td>12</td>
<td>50</td>
<td>O</td>
</tr>
</tbody>
</table>

Source: Primary data

Key:
- NSP - Nearest selling point (distance in kms from the firm)
- FSP - Farthest selling point (distance in kms from the firm)
- CAP - Installed Capacity (Tons)
- C.U - Capacity Utilisation (%)
- O - Own outlet
- R - Retailer
- W - Wholesaler

The manufacturers using retailers are found to reach centres five to thirty five km from the factory. In 10% of
the sample, wholesalers, are used to distribute the product at distant places. Such units are observed to deal with other products as well, where wholesalers are being used. The units that reach distant markets use their own vehicles to transport the items to the middlemen. The flow of biscuits from the manufacturers to consumers through various channels is shown in Figure 5.4.1.

5.5 MARKETING CHANNELS OF PROCESSED SPICES MANUFACTURING UNITS

5.5.1 The processed spices are reported to have a mean shelf life of slightly over two months (67 days). This makes it possible for manufacturer to take 3 to 4 days to move the product to the consumers. There are cases where the packed item reach the retail outlets after seven days from date of manufacture.

The processed spices from the SSI sector is marketed within the state and also in the neighbouring states. A few units are exporting their products.

The increasing demand for convenience food products and the large number of units in the spices processing sector makes the market dynamic. The sprouting up of a series of SSI
FIGURE: 5.4.1
CHANNELS OF DISTRIBUTION - BISCUITS

MANUFACTURERS

- Own Outlet
- Wholesalers
- Retailers

INSTITUTIONAL BUYERS

CONSUMERS

BISCUITS - CHANNELS

INTERNAL ARRANGEMENT
IC - Own outlet - 8 - 80%

EXTERNAL ORGANISATIONS
EA - Retailers - 4 - 40%
EB - Wholesalers - Retailers - 1 - 10%

CONSUMERS
CA - Domestic (Enduse) Consumers - 9 - 90%
CD - Institutional Buyers - Caterers - 1 - 10%

These units cater to both institutional buyers as well as end-use consumers. All units have domestic and non-commercial units. Hostels, restaurants, and employee cooperative stores fall under the commercial institutional-buyer category.

The channels of distribution of these units are as follows:
1. Manufacturers - Retailers
2. Manufacturers - Wholesalers - Retailers
3. Manufacturers - Distributors - Wholesalers
4. Manufacturers - Institutional Marketers
5. Manufacturers - Shipping Agents - (Export Market)
units in the sector has caused a spurt in competition and in turn, large number of casualties. Reaching the consumer with speed and efficiency, determines the sustenance of these units. This product group is found to use the most number of channels for distributing the products.

5.5.2 CONSUMERS

These units cater to both institutional buyers as well as end-use consumers. All units have domestic end-use consumers. Institutional buyers include commercial and non-commercial organisations. Hostels, restaurants, and employee cooperative stores, fall in the commercial institutional-buyers category.

5.5.3 CHANNELS

The channels of distribution of these units are :-

a. With external organisations :

1. Manufacturers - Retailers - Consumers
2. Manufacturers - Wholesalers - Retailers - Consumers
4. Manufacturers - Institutional Marketers (Franchise)
5. Manufacturers - Institutional Marketers (Employee Cooperative Stores) - Consumers (Members)
6. Manufacturers - Shipping Agents - [Export Market]
b. Without external organisations:

1. Manufacturers -(Door-to-Door sales by self) -Consumers

2. Manufacturers -(Door-to-Door sales by self)-Consumers (Institutional Buyers)

3. Manufacturers- (Door-to-Door sales by sales representatives) - Consumers.

4. Manufacturers - (Door-to-Door sales by sales representatives) - Consumers (Institutional Buyers)

5. Manufacturers - Own outlets - Consumers

The Manufacturer - Retailer - Consumer channel is the most prominent one, used by 80% of the manufacturers. The manufacturer-wholesaler-retailer-consumer marketing channel comes second with 33% of the manufacturers using the same.

Door-to-door sales by the promoters themselves is a means used to augment the distribution efforts by these SSI units. 27% of the units use this channel along with the channels involving retailers. Sales representatives are also used to effect door-to-door sales. The units using retailers do not use them in exclusion of other channel members. Though very few units use their own outlets for marketing their processed spices, a minority among them use this channel alone.
This sector also witnesses a different channel in that a few SSI units work as franchisees of larger marketing organisations. This channel for reaching the market, saves these manufacturers some of the problems related to marketing, and hence they have time to concentrate more on the production related aspects. Moreover such units are found to be reaching limited areas geographically on their own. Of these, except for a minority, most of the units also use other channels to market their products directly to the consumers. Units that do not have channels other than the franchiser are found to be uninterested in the other channel options available. Interestingly, it was mentioned by such units that they had earlier used some of the other channels, before tying up with the larger marketing firms.

About 13% of the units are exporting their products. Their awareness regarding the channels for exporting, is limited to the extent of the shipping agents. They also have regional markets, and reach upto 35 km from the location of the units.

Table 5.5.1 provides the details of the processed spices manufacturing SSI units.
Table 5.5.1: Selling Point and Channel Members of Processed spices manufacturing SSI Units

<table>
<thead>
<tr>
<th>SL NO</th>
<th>NSP</th>
<th>FSP</th>
<th>CAP</th>
<th>C.U</th>
<th>CHANNEL MEMBERS</th>
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Source: primary data

Key:
- NSP - Nearest selling point (distance in kms from the firm)
- FSP - Farthest selling point (distance in kms from the firm)
- CAP - Installed Capacity (Tons)
- C.U - Capacity Utilisation (%)
- S - By self; door-to-door
- P - By sales representatives; door-to-door
- O - Own outlet
- R - Retailers
- W - Wholesalers
- D - Distributors
- N - Franchiser
- C - Co-operative consumer stores
- E - Exporter (shipping agency)

The flow of processed spices from the manufacturers to the consumers is shown in Figure 5.5.1.
FIGURE: 5.5.1
CHANNELS OF DISTRIBUTION - SPICES

MANUFACTURERS

- Exporters
- Institutional Marketers
- Franchise
- Institutional Marketers
- Cons. Co-op. Societies

Doors-to-Door sales by Self
- Door-to-Door sales by Salesman
- Own Outlet

Distributors
- Wholesalers
- Retailers

CONSUMERS

INSTITUTIONAL BUYERS

- Withou Outlet
- Own Outlet

EXTERNAL ORGANISATIONS

EA - Retailers
EB - Wholesalers - Retailers
EC - Distributors - Wholesalers - Retailers
EF - Institutional Marketers (Franchise)
EG - Institutional Marketers (Co-operative Societies)

EXPORT

XA - Exporters (Shipping Agents)

CONSUMERS

CA - Domestic (Enduse) Consumers
CB - Institutional Buyers (Hotel, Restaurant)

This is a pre-requisite for a product like pickle, which is generally based on the brand-name. Pickles have a mean shelf life of 90 days as reported by the SSI manufacturers of these products. While the store is not a realistic enterprise, it is a common practice during off-seasons. Hence, distribution is not a bulk operation for distribution during off-seasons. Hence, these marketing activities are generally based on the brand-name.
5.6 MARKETING CHANNELS OF PICKLES MANUFACTURING SSI UNITS

5.6.1 The pickles have a mean shelf life of 302 days as reported by the SSI manufacturers of these products. While tastes of consumers differ, there is a general feeling that pickles are more palatable, the more mature they are.

5.6.3 CHANNELS

Since the fruits that are mostly pickled are seasonal in availability, the manufacturers procure the same in bulk and pickle them for distribution during off-seasons. Hence speed in distribution is not a major factor for marketing these products.

Three-fourth the manufacturers have branded their products. This is a pre-requisite for a product like pickle, which is observed to be preferred generally based on the brand-name.

5.6.2 CONSUMERS

Pickles manufactured by the SSI units are found to be entirely aimed at the end-use consumers. Institutional buyers have not been reported by the sampled units. This could be realistic, considering the fact that preparation of pickles is not a technically complex process. Commercial establishments, including hotels, restaurants, caterers, and
hostels which need pickles, have their own arrangements for preparing the same. In-house preparation of pickles would be cost-effective for such institutions. This stresses the need for the SSI pickle manufacturing units to target the end-use consumers rather than the institutions.

5.6.3 CHANNELS

The marketing channels used by these SSI units are typical ones employed by the consumer goods manufacturers.

a. With external organisations:

1. Manufacturers - Distributors - Retailers - Consumers
2. Manufacturers - Wholesalers - Retailers - Consumers
3. Manufacturers - Retailers - Consumers
4. Manufacturers - Shipping Agents - [Export Market]

b. Without external organisations:

1. Manufacturers - Own outlets - Consumers (end-use)
2. Manufacturers - (Door-to-Door-sales by self) - Consumers
3. Manufacturers - (Door-to-Door sales by sales representatives) - Consumers.
The door-to-door sales efforts serve more as a promotional function than as a distribution system. But for these SSI units, the distinction between the two functions is not readily noticeable. For marketing pickles, the channels more frequently used are the manufacturer - wholesaler-retailer - consumer channel and the manufacturer - retailer - consumer channel. These channels are used by half the sample units.

Some of the units are found to rely on their own outlet for distributing their entire output of pickles. These units effect sales only from their own outlets.

Some of the units which also export their products entrust the distribution of pickles within the state with distributors. The distributors use their own systems for transferring the products to the retailers directly.

Half the units sampled have export markets for their products. These units transfer the product to their shipping agent, who in fact, looks after the requirements beyond that level. The manufacturing units could not provide much information regarding the subsequent stages of the marketing process or channel structures.
The units that depend on the wholesaler-retailer channel are observed to distribute their products up to 35 km from the location of the units.

Majority of the units are found to have own vehicles for transporting the products. The need for safe physical handling of products, especially since the packing is done in bottles, necessitates the units to use their own transportation facilities which would ensure lower levels of loss due to damages.

The details of units manufacturing pickles that were studied are given in Table 5.6.1

<table>
<thead>
<tr>
<th>SL NO</th>
<th>NSP</th>
<th>FSP CAP</th>
<th>C.U TON</th>
<th>% S P O R W D E</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0</td>
<td>200 250</td>
<td>60</td>
<td>P</td>
</tr>
<tr>
<td>2</td>
<td>0</td>
<td>200</td>
<td>34 44</td>
<td>R W E</td>
</tr>
<tr>
<td>3</td>
<td>0</td>
<td>0</td>
<td>6 17</td>
<td>O</td>
</tr>
<tr>
<td>4</td>
<td>0</td>
<td>35 12</td>
<td>50</td>
<td>S R W</td>
</tr>
</tbody>
</table>

Source : Primary data
Key:

NSP - Nearest selling point (distance in kms from the firm)
FSP - Farthest selling point
CAP - Installed Capacity (Tons)
C.U - Capacity Utilisation (%)
S - Door-to-door sales by self
P - Door-to-door sales by sales representatives
O - Own outlet
R - retailers
W - wholesalers
D - Distributors
E - Exporters (Shipping Agent)

The Figure 5.6.1 depicts the flow of pickles from the manufacturers to the consumers through the various channels.
FIGURE: 5.6.1

CHANNELS OF DISTRIBUTION - PICKLES

MANUFACTURERS

Door-to-door sales by Self
Door-to-Door sales by Salesmen

Wholesalers

Retailers

Retailers

Retailers

CONSUMERS

INTERNAL ARRANGEMENT
IA - Door-to-Door sales by Self - 1 - 25%
IB - Door-to-Door sales by Salesmen - 1 - 25%
IC - Own Outlet - 1 - 25%

EXTERNAL ORGANISATIONS
EA - Retailers - 2 - 50%
EB - Wholesalers - Retailers - 2 - 50%
ED - Distributors - Retailers - 1 - 25%

EXPORT MARKET
XB - Shipping Agents - 2 - 50%

CONSUMERS
CA - Domestic - 4 - 100%