CHAPTER 2
WHAT IS MARKETING CHANNELS?
Introduction:

In the field of marketing, channels of distribution indicate routes or pathways through which goods and services flow, or more from producers to customers.

The most producers do not sell their goods, directly to the final users. Between producers and the final users stands a marketing channel. Thus, distribution channel has a key role in the development of marketing and it provides variety of goods in the markets for producers and manufacturers.

According to some authors distribution system has two subdivisions:

1. Channel of distribution
2. Physical distribution

In the channel of distribution we encounter with middlemen or intermediaries processors as well as merchant middlemen, agents and facilitators.

In this chapter we discuss about merchant middlemen, who perform all marketing functions, such middlemen are specialized in one or a few marketing functions. These middlemen facilitate (provide) the process of exchange and create time, place and possession utilities through matching and sorting process.

As such, they are able to transfer the best of information from markets, customers, competitors, goods, situation in the market, suggestion for new brand (product) to manufacturers or producers.

Intermediaries or middlemen play an important role in the marketing of the product. Making the product available to the customer in the most convenient pack size is a function, which only the middlemen can perform.
The physical distribution looks after handling of goods and assure maximum customer’s service. It aims at offering delivery of right goods at the right time and place to customers.

Definitions of marketing channel or channel of distribution:

According to definition of Louis W. Stern and Adel I. Ei-Ansary:

Marketing channels can be viewed as sets of interdependent organizations involved in the process of making a product or service available for consumption or use.²

According to definition of Philip Kotler, emanated from definition of Adel and others.³

“Marketing channels are sets of independent organizations involved in the process of making a product or service available for use or consumption.”

Now we’ll have a standard definition from encyclopedic dictionary of marketing management ⁴

A channel of distribution is the route along which goods and services travel from producer / manufacturer through marketing intermediaries such as wholesalers, distributors, and retailers to the final user.

\[
\text{(2.1) Channel of Distribution}
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Source: (1.2) Encyclopedic dictionary of marketing management P. 121
2. 1. 0 The concept of distribution (Marketing) channels:

The most people think in words, at least most of the time. Therefore, if the words are fuzzy (dark), so is the thinking. To sharpen our thinking one good step is to sharpen the word meanings in our vocabulary. To illustrate this point, a channel of distribution is sometimes referred to as a 'pipeline' to provide distribution of goods from manufacturer to consumers. It implies that the goods flow through it. And yet, the channel of distribution relates to the path taken by the title to the goods, not the goods themselves. They flow through a pattern of physical distribution, which can be significantly different from the channel of distribution and is a complex problem of distribution, but are a part of physical distribution.5

This is an entirely different concept. It includes production and change in form, and covers what happens from beginning to end.

Perspective is always a most important part of decision making. It should be noted that the concept of channel of distribution may be an oversimplification of reality, an academic tool less used by businessmen than is implied.

It implies, further, a purity of choice made by the manufacturer between eagerly receptive middlemen.

Philip Mcvey put it in this way:

Further study of marketing textbooks may lead a reader to conclude that: (a) middlemen of many types are available to any manufacturer in any market to which he wishes to sell, and within each type there is an ample selection of individual firms; (b) the manufacturer habitually controls the selection and operation of individual firms in his channel; (c) middlemen respond willingly as selling agents for the manufacturer rather than as
purchasing agents for a converted group of customers to whom the middlemen sell.

Yet none of these conclusions are entirely valid. In fact, integrated action up and down a channel of distribution is a rare luxury in marketing. Instead of channel, a businessman is likely to concern himself merely with suppliers and customers. His dealing is not with all of the links in channel but only with those immediately adjacent to him, from which he buys and to which he sells.

A manufacturer may not even consider himself as standing at the head of a channel, but only as occupying a link in a channel that begins with his suppliers.

One further complicating factor should be mentioned. The manufacturer may not have freedom of choice he thinks, or would like to have, in selecting his channels.

On the other hand, the middleman can be eliminated from the marketing channel, but the functions cannot be eliminated. The justification for the use of middlemen is that they do the job cheaper or better than the manufacturer can.

Realistically, a typical situation may find a manufacturer sell the large customers directly, the concentration of smaller customers through distributors, and those in more remote locations through agents. These situations may fit the desired distributional pattern, or they may violate it.

This is not to say that the manufacturer is completely helpless. If an ideal pattern can be found, based on a careful analysis of the best ways to satisfy one’s customers, and considering the criteria to be resolved in doing so, the manufacturer can work toward this pattern with a definite goal in mind.
2.2.0 Channel functions and flows:

Under the systems approach the channel is now recognized as a system involving flow of:

(a) Information (b) Promotion (c) Negotiation (d) Ordering (e) Financing and (f) Risk taking.

(a) Information:

Middlemen have a role in providing information about the market to the manufacturer: developments like change in customer demography, psychology, psychography, media habits and the entry of a new competitor or a new brand and changes in customer preference are some kind of information that manufacturers want.

Since these middlemen are close to the customer and present in the market place they can provide this information without spending cost.

(b) Promotion:

The development and dissemination of persuasive communications designed to attract customers to the offer. Promoting the product/s in his territory is another function that middlemen perform. Many of them design their own sales incentive programmes aimed at building customer traffic at their outlets.

(c) Negotiation:

The attempt to reach final agreement on price and other terms so that transfer of ownership or possession can be effected.

(d) Ordering (Physical flow):

Marketing-channel member's communicate of intentions to buy to the manufacturers.
(e) Financing (Payment Flow):

The acquisition and allocation of funds required to finance inventories at different levels of the marketing channel.\(^\text{10}\)

(f) Risk taking (Title):

The assumption of risks connected with carrying out the channel work. The most middlemen take title to the goods and services and trade in their own name. This also enable middlemen being in physical possession of the goods, which enable them to meet customer demand at the very moment it arises.

\[\text{Exhibit (2.2) Channel flows}\]

1. Promotion Flow:

[Diagram of Promotion Flow]

2. Physical Flow (Ordering):

[Diagram of Physical Flow (Ordering)]

3. Financing (payment) Flow:

[Diagram of Financing Flow]
4. Risk taking (Title) Flow:

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Input suppliers → Bank → Manufacturer → Retailers → Customers
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5. Negotiation Flow:

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Manufacturer Representative ← Dealers → Manufacturer
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6. Promotion Flow:

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Supply of inputs → Advertising Agency → Manufacturer → Advertising Agency → Trade → Customer
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Sources: Philip Kotler, Marketing management, 1999.
Adel I Ei-Ansary, Marketing channels, 1996.

2. 3. 0 Emergence of marketing channel in marketing:

The emergence and arrangement of the wide variety of distribution oriented institutions and agencies, typically called intermediaries, because they stand between production on the one hand and consumption on the other hand, can be explained in terms of four logically related steps in an economic process.\(^{11}\)

Intermediaries arise in the process of exchange because they can improve the efficiency of the process.
Channel intermediaries arise to adjust the discrepancy of assortment through the performance of the sorting processes.

Marketing agencies hang together in channel arrangement to provide for the routinization of transactions.

Channels facilitate the searching process.

The four steps are explained as follows:

A- Efficiency rationale for intermediaries:

In primitive cultures, most household needs are produced within the household.

At an early stage in the development of economic activities, however, exchange replaced production as a means of satisfying individual needs. Exchange is facilitated when there is a surplus in production over current household requirements, and when this surplus cannot be held for future consumption because of the perishable nature of the products or the lack of storage facilities. Thus, if numerous households are able to effect small surpluses of different products, a basis for exchange is developed.¹²

These conditions of exchange are more easily met when production becomes specialized and the assortment of goods broadened.

As the importance of exchange increases however, so does the difficulty of maintaining mutual interactions among all households.

Obviously, one must account for differences, indirect and direct communication costs, in the effectiveness and efficiency of the institutions involved in the transaction, and in the quality of the contact between the various channel members.
B- Discrepancy of assortment and sorting:

In addition to increasing the efficiency of transactions, intermediaries smooth the flow of goods and services by creating possession, place and time utilities.

These utilities enhance the potency of the consumer’s assortment. One aspect of this smoothing process requires that intermediaries engage in sorting function. This procedure is necessary in order to bridge the discrepancy between the assortment of goods and services generated by the producer and the assortment demanded by the consumer.

The sorting function performed by intermediaries includes the following activities:

i. Sorting out: This involves breaking down a heterogeneous supply into separate stocks that are relatively homogeneous.

ii. Accumulation: Concerns bringing similar stocks from a number of sources together into a large homogeneous supply.

iii. Allocation: Refers to breaking a homogeneous supply down into smaller and smaller lots.

iv. Assorting: This is the building up of an assortment of products for resale in association with each other.

C- Routinization:

Each transaction involves ordering of, and paying for goods and services. The cost of distribution can be minimized if the transactions are routinized; otherwise every transaction is subjected to bargaining, with an accompanying loss of efficiency.

Moreover, routinization facilitates the development of the exchange systems. It leads to standardization of goods and services whose performance
characteristics can be easily compared and assessed. Because of routinization, a sequence of marketing agencies can perform more efficiently together in a channel.

D- Searching:

Buyers and sellers are engaged in a double-search process in the marketplace.

The process of searching involves uncertainty because producers are not certain of consumers’ needs, and consumers are not certain that they will be able to find what they want.

Marketing channels facilitate the process of searching, as when for example:

i. Wholesale and retail institutions are organized by separate lines of trade such as drug, hardware, and grocery.

ii. Products such as over-the-counter drugs are widely available through thousands of drugstores, supermarkets, convenience store and even gasoline stations.

iii. Hundred of thousands of parts are supplied to automotive repair facilities from local jobbers within hours of the placement of orders.13

2. 4. 0 Role and Importance of Distribution Channels:

Distribution channel play a decisive role in the successful marketing of most products, especially consumer products:

There are several important roles for distribution channel as following14
1. Channels provide distributional efficiency to the manufacturers: In the first place, the channels bring together the makers and the users in an efficient and economic manner.

2. Channels offer the products in assortments that are usable by and acceptable to the users:

The distribution channels combine the products and components manufactured by different firms and offer them in the form of assortment’s or ‘packages’ of items that are ‘usable by’ and ‘acceptable to’ to users.

3. Channels provide the vital input of salesmanship: The distribution channels also provide the vital input of salesmanship. In particular, they help in establishing new products in the market.

4. Channel help in merchandising: Merchandising is another important function performed by the distribution channel. Through merchandising, the channels help the principals to reinforce the awareness about the product among the customers.

5. Channel also help implement the price mechanism: The channels also help implement the price mechanism in the market; they assist in arriving at the price level that is acceptable to the maker as well as the user.

6. Channel also promote transfer of technology and act as change agents: In certain cases, the distribution channels go far beyond the conventional functions of distribution or distribution plus service.
2.5.0 The Nature of Middlemen:

There are three types of middlemen that facilitate flow of goods and services from the manufacturer to the customer:

1. Merchant middlemen:

These are the intermediaries who take title to the goods and services and resell them in market. They are such as dealers, wholesalers, and retailers and are called merchants.

Merchant middlemen are very necessary for distribution system because of their role in the markets.

2. Agents:

These are those intermediaries who do not take title to the goods and services but help in identifying potential customers and even help in negotiations.

They do not share risk with the manufacturers, as they do not take title to goods and services.

Thus, their names are such as, brokers, jobbers, manufacturers, representatives and sales agents. They also act on behalf of the producer only to the limited extent of prospecting, warehousing and redistributing the products.

3. Facilitators:

These are independent business units that facilitate the flow of goods and services from the producer to the customer without taking title to them or negotiating for them on behalf of the producers.

They are such as transportation companies, independent warehouses, banks and advertising agencies.
2. 6. 0 Evaluating the Major Channel Alternatives:

For evaluating of channel alternatives some criterion are explained as follows:\textsuperscript{18}

(a) Economic criteria \quad (b) Control criteria \quad (c) Adaptive assort criteria

(a) Economic criteria:

Each channel alternative will produce a different level of sales and costs.

The first step is to determine whether a company sales force or a sales agency will produce more sales. Most marketing managers believe that a company sales force will sell more since company sales representative concentrates entirely on the company's products: they are more aggressive because their future depends on the company’s success; and they are more successful because many customers prefer to deal directly with the company.

However, the sales agency could sell more than a company sales force.

(b) Control criteria:

Channel evaluation must take into account control it uses. Using the sales agency poses a control problem. A sales agency is an independent business firm seeking to maximize its profit. The agents may concentrate on the customer who buy the most, not necessarily of the manufacturer's goods.

Further more, the agents might not master the technical details of the company’s product or handle its promotion materials effectively.

(c) Adaptive criteria:

To develop a channel, the channel members must make some degree of commitment to each other for a specified period of time.
In rapidly changing, volatile, or uncertain product markets, the producer needs to seek channel structures and policies that maximize control and ability to change marketing strategy swiftly.

2.7.0 Number of Channel Levels:

Each intermediary that performs work in bringing the product and its title closer to the final buyer constitutes a channel level.

Since, one of the important decisions that the firms have to often take is the number of channel levels appropriate to serve a given market.

The channel levels represent channel members who have a specific role to play. The most common routes used for bringing the products in the market from producer to consumer are as follows:

(1). **Zero-level channel (manufacturer-consumer-channel):** Directly from manufacturer and selling to the final customer.

(There are three alternatives in direct sale to consumer) The major zero-level channels are:

i. Sale through advertising and direct methods (mail order, selling, tele-marketing, TV selling)

ii. Sale through travelling salesforce (door-to-door)

iii. Sale through retail shops of manufacturer (manufacturer-owned store).

Typically, zero level exists in most industrial product marketing, particularly in capital equipment or project marketing.

(2) **One-level channel (manufacturer-retailer-ultimate consumer),** this channel option is preferable when buyers are large retailers.
A one-level channel contain one selling intermediary such as a retailer. There are some alternatives in the one-level channel as well as: department store, discount house, chain stores, super market, big mail order house or cooperative stores.

It is also suitable when products are perishable and speed in distribution is essential. For distance: Automobile appliances, men’s and women’s clothing, shoes are sold directly to retailers. Here the firms sell its goods to a wholesaler or large dealer or transfer them to an agent. This channel member then distributes the product in his area.

(3). Two-level channel (manufacturer-wholesaler-retailer-consumer): A two-level channel contain two intermediaries. In consumer markets, they are typically a wholesaler and a retailer.

Many a time, as in the case of consumer products, customers are spread all over country and the market is large.

To search out to such a vast market, a firm has to necessarily increase the length of the channel and one finds two, three and even four levels of distribution.

It is also suitable for a producer under the given consideration:

i. He has a narrow product line.

ii. He has limited finance.

iii. Wholesalers are specialized and can provide strong promotional support.

iv. Products are durable and not subject to physical deterioration or fashion changes.

(4). Three-level channel (manufacturer-agent-wholesaler-retailer-consumer): A three level channel contains three intermediaries.
In this channel the producer uses the service of an agent middleman, such as a sole selling agent, for the initial dispersion of goods.

The agent in turn may distribute to wholesalers, who in turn sell to retailers. The firm may sell or transfer its goods to a wholesaler or agent respectively, who in turn sells the goods to a retailer and through the retailer the goods finally reach the customer. In this case, the firm may appointment of a distributor or franchise the territory to another business firm.

This distributor or franchisee sells to a wholesaler who in turn sell the goods to retailers. In marketing manufactured goods, agent middlemen are used by manufacturer to make themselves free from marketing tasks.

(5). *Four-level channel* (manufacturer-wholesaler-consumer/user): In this level wholesaler may bypass retailer when there are large and institutional buyers for example: business buyers, government, consumer, co-operatives, hospitals, educational institution, business houses.

Longer marketing channels are also found. In Japan, for example, food distribution may involve as many as six levels.
2.8.0 Identifying Major Distribution Alternatives:

Once the company decides the general channels to be used, it has to decide on the number of middlemen in each channel.

There are four alternatives:

2.8.1 Extensive Distribution:

This alternative involves all the possible outlets that can be used to distribute the product.

There are maximum number of retail outlets for mass distribution of convenience goods as consumers demand immediate satisfaction and too at the most convenient retailer shops. Extensive or broadcast distribution is essential when the price is low, buying is frequent and brand switching is a common phenomenon. Extensive distribution secures rising sales volume, wider consumer recognizing and considerable impulse purchasing.

It creates problem of motivation and control and it may generate unprofitable sales due to higher marketing costs.

2.8.2 Selective Distribution:

This alternative is the middle path approach to distribution. Here, the firm selects some outlets to distribute its products.

This alternative helps focus the selling effort of the manufacturing firms on a few outlets rather than dissipating it over countless marginals ones. It also enables the firm to establish good working relationship with the channel members.

The selective distribution can help the manufacturer gain optimum market coverage and more control, but at a lesser cost than extensive distribution.
If the product has long useful life and consumer brand preference can be established, selective distribution will be more profitable.

2. 8. 3 Exclusive Distribution:

When the firm distributes its brands through just one or two major outlets in the market who exclusively deal in it and not all competing brands, calls, the firm is using an exclusive distribution strategy. This is a common form of distribution in products and brands that seek high prestigious image.

Typical examples are designer wares, major domestic appliances and even automobiles.

By granting exclusive distribution rights, the manufacturer hopes to have control over the intermediaries price, promotion, credit inventory and service policies. If the amount of product service expected by final buyers is considerable, exclusive distribution is preferable.

There are three major aspects of exclusive distribution.24

i. Exclusive dealing contracts: They prohibit the dealer from selling products of rivals.

ii. Tying contracts: They compel the dealer to carry full line of a manufacturer.

iii. Closed sales territory: It limits each dealer to sell only to buyers located within the assigned area.

2. 8. 4 Franchise Selling:

Franchise means a privilege or exceptional right granted to a person. Franchise selling is a term to describe in effect selective or exclusive distribution policies.
Franchise selling is any contract under which independent retailers or wholesalers are organized to act in close cooperation with each other or with manufacturers to distribute given products or services. Under this system the owner of the product issues a license to independent dealers in certain areas and encourages them to make profit for themselves. The owner retains control over the technique or style with which the goods or services are sold. 25

There are three forms of franchise systems:

1. The manufacturer-sponsored retail franchise system.

2. The manufacturer-sponsored wholesale franchise system.

3. The service-firm-sponsored retail franchise system.

2. 9. 0 The Factors of Channel Choice:

Marketing channel decisions considerably influence all other marketing decisions such as pricing and promotion. Chosen channel cannot be terminated overnight. A distribution system is a key external resource, equally important with key internal resources. The problem of selecting the most suitable channel of distribution for a product is very complex. The most fundamental factor for channel choice and channel management is economic criteria, viz. Cost and profit criteria.

However, channel decisions are not made entirely on the basis of rational economic analysis.

There are other number of factors such as the nature of the product, market trends, competition outlook, pricing policies, typical consumers needs, as well as needs of the manufacturer himself.

The following are number of factors which can affect the channel choice policy. 26
1. **Product characteristics:**

   If a commodity is perishable or fragile, a producer prefers few and controlled levels of distribution. (a) For perishable goods speedy movement needs shorter channel or route of distribution. (b) For technical products needs special selling and serving talent. In this situation the firm or company should have the shortest channel. Any way the company or firm should pay attention to market characteristics also.

2. **Market characteristics:**

   If the market size is large, there are many channels. Whereas in a small market direct selling may be profitable.

   For highly concentrated markets direct selling is enough but for widely scattered and diffused markets, there can be many channels.

   Size and average frequency of customer's order also influence the channel decision.

   Age, income group, sex, vocation, religion, buying habits of customers and dealers will also influence on the channel choice.

   In this situation three or even more levels of distribution are essential.

3. **Middlemen characteristics:**

   The middlemen, who can provide wanted marketing services will be given first preference.

   The selection of middlemen must offer maximum co-operation particularly in promotional services. They must accept marketing policies and programmes of the manufacturers and actively help them in their performance. The channel generated the largest sales volume at lower unit cost will be given top priority.
This style for cost minimization is used, and this will minimize distribution cost.

4. Company characteristics:

The company’s size determines the size of the market, the size of its larger accounts and its ability to get middleman’s co-operation. The company’s product mix influence the pattern of channel.

A company with substantial finance resources need not rely too much on the middlemen and can afford to reduce the levels of distribution. New companies rely heavily on middlemen due to lack of experience and ability of management.

A company also desiring to exercise greater control over channel will prefer a shorter channel as it will fascinate better coordinating, communicating and controlling.

Heavy advertising and sale promotion can motivate middlemen to handle displays and join enthusiastically in the promotion campaign and cooperation publicity.

Thus, quantity and quality of marketing services provided by the company can influence the channel choice directly.

5. Marketing environment characteristics:

Marketing environment can also influence the channel decision. During recession or depression, shorter and cheaper channel is always preferable. In time of prosperity, there is a wider choice of channel alternatives. Technological inventions also have impact on distribution.
6. Competitors characteristics:

Marketers closely watch the channels used by rivals. Many a time, similar channels may be desirable to bring about distribution of products also. However, sometimes marketers deliberately avoid customary channels (dominated by rivals) and adopt different channel strategy. Thus, the competitors will be identified by each other.

Now we can say the channel choice not only depends on economic factors but also on several other factors as above mentioned.

2. 10. 0 What are the Factors, Which Affect on Channel Dynamic?

The change in the market place have led to the evolution of vertical and horizontal, multi-channel marketing system.

1. Vertical marketing system (VMS):

Often one finds that the manufacturer, wholesalers and retailers are locked up in an unproductive conflict. This is because each of them conventionally act as independent business units pursuing a profit goal even though, at time, it may work against other. Each is a separate business entity seeking to maximize its own profit, even though this goal decreases profit for the system as a whole.27

Mc Cammon characterizes conventional channels as high fragmented networks in which loosely aligned manufacturers, wholesalers, and retailers have bargained with each other at arm’s length, negotiated aggressively over terms of sales and otherwise behaved autonomously.28

A vertical marketing system (VMS), by contrast, compromises the producer, wholesaler(s), and retailer(s) acting as a unified system.

One channel member owns the other or franchise them or has so much power that they all cooperate.
Vertical marketing systems achieve economies of scale through their size, bargaining power and the elimination of duplicated services.

Vertical marketing system arose as a result of strong channel members attempts to control channel behavior and eliminate the conflict that result when independent channel members pursue their own objectives.

There are three types of VMS as: Corporate, administered, and contractual.29

(i) A corporate vertical marketing system combines successive stages of production and distribution under single ownership.

(ii) Administered VMS: Unlike the corporate VMS, administered VMS seeks to control the successive stage from production to distribution not through common ownership but through the size and power of one of the members.

(iii) Contractual VMS: This consists of independent firms at different levels of production and distribution integrating their programmes on a contractual basis to obtain large economics of scale and or sales impact than they could achieve alone.

2. Horizontal marketing systems (HMS):

On the other hand one can say (HMS) is another contemporary marketing channel system, which challenges the conventional one as the horizontal marketing system. This reflects the readiness or willingness of two or more non-related companies to put together resources to exploit emerging market opportunity.

Adler says this form of marketing obtains a tremendous potential and many such arrangements are and will occur in future.
3. Multi-channel marketing system (MMS):

Lately, firms have been realizing that one system or a single channel system is not able to deliver the desired result.

Multi-channel marketing occurs when a single firm uses two or more marketing channels to reach one or more customer segments.

By cooperating, the channel members can more effectively sense, serve, and satisfy the target market.

By adding more channels, companies can gain three important benefits:

i. The first is increased market coverage.

ii. The second is lower channel cost.

iii. The third is more customerized selling.\(^{30}\)

New channels typically introduce conflict and control problems. Conflict occurs when two or more companies’ channels end up competing for the same customers. Control problems occur to the extent that the new channels are more independent and make cooperation more difficult.

In this kind of channel developing, Moviarty and Moran propose using a hybrid grid to plan the channel architecture.
The grid shows several marketing channels and several marketing tasks. One common practice is for companies to assign different channels to sell to different customer-size groups.

Two researchers believe that there is a better way to design and manage a hybrid marketing system.

They would establish a centralized marketing database containing information about customers, products, prospects, marketing programs, and methods.³¹

More therefore, this hybrid channel architecture and management system optimizes coverage, customization, and control while minimizing cost and conflict.
2. 11. 0 Channel Cooperation, Conflict, and Competition:

Before designing, planning and managing, it is necessary to know and search about competing and conflicting characteristics in the channels. Thus, in the marketing, specially in the channel members, for instance, suppliers, manufacturers, retailer, wholesalers, dealers, competition is very important point and they should anticipate and know their rivals in the business environment.

In this case they should change their situation consciously by answer to some questions as follows: 32

- What types of conflict arise in channels?
- What causes channel conflict?
- What can be done to resolve conflict situation?

May be the vertical, horizontal, and multi-channel conflict can occur. In the vertical channel conflict, there is conflict between different levels within the same channel. The horizontal channel conflict exists when there is conflict between members at the same level within the channel. The multi-channel conflict exists when the manufacturer has established two or more channels that compete with each other in selling to the same market.

1. Main reasons of channel conflict:

It is important to identify the different causes of channel conflict. Some of them are easy to resolve, others more difficult, some of main the reasons are listed in below:

i. Goal incompatibility: For instance, the manufacturer may want to achieve rapid market growth through a low-price policy. The dealers, in contrast, may prefer to work with high margins and pursue short-run profitability. This is difficult to resolve.
ii. Difference in perception: The manufacturer may be optimistic about the short-term economic outlook and want dealers to carry higher inventory. But the dealers may be pessimistic about the short-term outlook.

2. Merchandise middlemen in marketing channels:

In previous pages of this chapter we have identified about the types of merchandise middlemen in marketing channels process as retailers, wholesalers, and dealers. In the next pages we will outline the nature, duties and definitions of three major types in merchant middlemen with identifying of sub-middlemen for each items.
2. 12. 0 Retailing:

A retail sale is one in which the buyer is an ultimate consumer, as opposed to a business or institutional purchaser. In this case, at first, let us have two definitions from two famous authors:

"Retailing includes all the activities involved in selling goods or services directly to final consumers for their personal, non business use. A retailer or retailing stores is any business enterprise whose sale volume comes primarily from retailing."^^

"Retailing consist of the activities involved in selling goods and services to ultimate consumers for personal consumption."^^

Any organization that does this type of selling—whether a manufacturer, wholesaler, or retailer—are doing retailing.

It doesn’t matter how the goods or services are sold (by person, mail, telephone, or vending machine) or where they are sold (in a store, on the street, or in the consumer’s home).

In contrast to wholesale sales (i.e., purchases for resale or for business, industrial, or institutional use), the buying motive for a retail sales is always personal or family satisfaction stemming from the final consumption of the item being purchased.

2. 12. 1 Types of retailers in the marketing channels:

Retail organizations exhibit great variety and new forms keep emerging—several classifications have been proposed. In this case we will observe types and duties of sub-middlemen as, store retailing, non-store retailing, and retail organization.
2. 12. 1. A Store retailing:

In store retailing, we are encountered with sale brand, goods, and services directly to ultimate customer. There are some kinds of stores retailing. Specialty stores, department stores, supermarkets, convenience stores, discount stores, off-price retailers, superstores, and catalog showroom.

(1) Specialty stores: Specialty stores, as the name implies, are ones that carry a narrow product line with a deep assortment within that line. Specialty stores, can be sub-classified by the degree of narrowness in their product line.\textsuperscript{35}

Some analysts contend that in the future, super specialty stores will grow faster to take advantage of increasing opportunities for market segmentation, market targeting, and product specialization.

(2) Department stores: A department stores carries several product lines, invariably all those that will be required by a typical household. These lines include food, clothing, appliances and other household goods, home furnishings, gifts and curios.\textsuperscript{36}

In a typical department store each product lines, is managed independently by specialist buyers or merchandisers.

(3) Supermarket: This is a large, low cost, low margin, high volume, self-service operation designed to serve the customer need for food, laundry and household maintenance products.

(4) Convenience stores: These are generally food stores much smaller in size than supermarket.

These are conveniently located near residential areas and have long hours of operations, seven days a week, and carry a limited line of high turnover convenience products.
(5) **Discount stores**: As the name implies, discount stores are the ones that sell standard merchandise at lower prices than the conventional merchants or stores by accepting lower margins but pushing for higher sales volume.

A true discount stores has four characteristics:\(^{37}\)

- It regularly sells its goods at a discount price.
- It carries national or reputed brands to enhance its image.
- It keeps its operational costs to the minimum by emphasizing on self-service and no frills interiors.
- Its location tends to be low rent areas, and it draws customers from even distant locations.

(6) **Off-price retailers**: Buy at least than regular wholesale price and charge consumers less than retail.

Tend to carry a changing and unstable collection of high-quality merchandise, often leftover goods, overturns, and irregulars obtained at reduced prices from manufacturers or other retailers.

There are three main types of off-price retailers as factory outlets, independent off-price retailers, and warehouse wholesale clubs.

- **Factory outlets**: Owned and operated by manufacturers and normally carry the manufacturer’s supplies, discontinued, or irregular goods.

- **Off-price retailers**: Owned and run either by entrepreneurs or by division of larger retail corporations.

- **Warehouse clubs**: Sell a limited selection of brand-name grocery items, appliances, clothing, and hodgepodge of other goods at deep discounts to members who pay $25 to $50 annual membership fees.\(^{38}\)
(7) Super stores: In superstore usually offers services, such as laundry, dry cleaning, shoe repair, check cashing, and bill paying, recent years have seen the advent of superstores that are actually giant specialty stores, the so-called "category killers" that carry a very deep assortment of a particular line and a knowledgeable staff. Variations on the superstore include the combination store and the hypermarket.

- Combination stores: Represent a diversification of the supermarket store into the growing drug-and-prescription field.

- Hypermarkets: this kind of superstores retailing includes combine supermarket, discount, and warehouse retailing principles.

Their product assortment, goes beyond routinely purchased goods and includes furniture, large and small appliances, and many other items. The basic approach is bulk display and minimum handling by store personnel, with discounts offered to customers who are willing to carry heavy appliances and furniture out of the store.\textsuperscript{39}

(8) Catalog showrooms: Sell a broad selection of high-markup, fast-moving, brand-name goods at discount prices.

Customers order the goods from a catalog in the showroom, then pick these goods up from a merchandise pick up area in the stores.

2.12.1. B- Non-store retailing:

A form of retailing in which a traditional store building is not involved, i.e. in which the retailer and customer transact their business through such means as: (1) direct mail, (2) door-to-door sales, (3) in-home or party-plan selling, (4) telephone sales, (5) catalog sale, (6) interactive television, (7) Vending machine.
Although the overwhelming majority of goods and services is sold through stores, non-store retailing has been growing much faster than store retailing, amounting to more than 12% of all consumer purchases.  

2.12.2 Retailing organization:

Retail organizations achieve many economies of scale, such as greater purchasing power, wider brand recognition, and better trained employees.

2.12.3 The major types of corporate retailing:

Corporate chain stores are voluntary chains, retailer cooperatives, consumer cooperatives, franchise organizations, and merchandising conglomerates we will describe in below. Before discussing about the major types of corporate retailing at first we should identify what is corporate retailing.

A voluntary association of independent retailers who jointly own and operate their own wholesale facilities and or who act together as a buying club in order to achieve the economies of large scale purchasing. The member stores often display a common emblem or logo and carry, in addition to nationally recognized brands, their own distributor brands.

A- Cooperative chain stores:

Two or more outlets that are commonly owned and controlled, employ central buying and merchandising, and sell similar lines of merchandise. Their size allows them to buy in large quantities at lower prices, and they can afford to hire corporate-level specialists to deal with such areas as pricing, promotion, merchandising, inventory control, and sales forecasting.

B- Voluntary chain:

Consist of wholesalers – sponsored group of independent retailers engaged in bulk buying and common merchandising.
C- Retail cooperative:

Retail cooperative consist of independent retailers who set up a central buying organization and conduct jointly promotion efforts.

D- Consumer cooperative:

Consumer cooperative is a retail firm owned by its customers. Customer coops are started by community residents who feel that local retailers are not serving them well, either charging too-high prices or providing poor-quality products. The residents contribute money to open their own store, and they vote on its policies and elect a group to manage it.

E- Franchise organization:

Franchise organizations are normally based on some unique product, service, or method of doing business, or on a trade name or patent, or on good will that the franchiser has developed.

F- Merchandising conglomerate:

Merchandising conglomerate is a free-form corporation that combines several diversified retailing lines and forms under central ownership, along with some integration of their distribution – and management function.

2. 12. 4  Marketing Decision in Retailing:

In the past, retailers held customers by offering a convenient location, special or unique assortments of goods, greater or better services than competitors, and store credit cards to enable their buyers to buy on credit.

Today all of those are changed. The result has been that retail stores and other retailers have grown to look more and more alike.
Retail marketers or owners have to take decisions that can help them achieve higher market share, sales volume and profitability. Some of those are identified below:43

(a) **Target market decision:**

The first marketing decision relates to the choice of the target market, understanding its needs and service requirement and also whether it is price sensitive. This analysis and decision is important as it will help in positioning and locating the store.

(b) **Locating:**

Arising out of the target market decision is the location decision, where should the retail outlets be located?

This decision will influence the cost structure of the retail organization.

(c) **Merchandise:**

The merchandise variety or the merchandise mix is the next major marketing decision. This is important not only from the point of servicing the target market but also because it represents a substantial portion of the retail organizations investment decisions like, which product to carry and for each product line decision like number of brands, colour, style, size, etc. which have to be taken by the retail organization.

(d) **Price:**

This involves decisions regarding the price lines to be carried and overall markdown or sale policies.

(e) **Store ambience and layout:**

Store ambience is one of the factors that, this would help in attracting the target customers like air conditioning and store decoration.
(f) Service:

Service differentiation also has eroded. This is the next decision for preventing from diminishing of services.

(g) Communication:

Management or owners of retail stores have to communicate to their target customers. Hence, advertising decisions like copy and media are as important to a store as to the manufacturers.44

Even, some stores mail their information on their annual sales or special events to their customers.
2.13.0 Wholesaling:

Wholesaling is an important activity in the marketing channels process. They are individual firms, who they help link many producers and final consumers.

It is not easy to define a wholesaler because there are so many different kinds of wholesalers that are doing different jobs. As a result, we find many definitions from wholesalers below:

i. Wholesaling includes all the activities involved in selling goods or services to those who buy for resale or business use. Wholesaling excludes manufacturers and farmers because they are engaged primarily in production, and it excludes retailers.45

ii. Wholesaling is concerned with the activities of those persons or establishments which sell to retailers and other merchants, and / or the industrial, institutional, and commercial users, but who do not sell in significant amounts to ultimate consumers.46

iii. Wholesalers; a term applied to a category of wholesaling middleman primarily engaged in buying merchandise from a producer and selling it to an industrial user, institutional user, or retailers but seldom to the ultimate consumer. The wholesaler ordinarily takes title to and possession of the goods he sells.

Thus, Wholesalers are firms whose main function is providing wholesaling activities. Differentiation of between wholesalers and retailers: wholesalers (also called distributors) differ from retailers in a number of ways.47
1. Wholesalers pay less attention to promotion, atmosphere, and location because they are dealing with business customers rather than final consumers.

2. Wholesale transactions are usually larger than retail transactions and wholesalers usually cover a large trade area than retailers.

3. The government deals with wholesalers and retailers differently in regard to legal regulations and taxes.

2. 13. 1 Possible wholesaling roles and services to members of channel:

Wholesalers may perform certain functions shaped by the task of coordinating production and consumption, or of making mixed demands for assortments at various levels within distribution.

Thus, wholesalers aid in bringing the gap between periods and places in which goods are produced and those in which they are consumed or used.

-The role of wholesalers for producer and suppliers:

a. Provide part of producer’s selling function, by going to producer suppliers, instead of waiting for their sales reps to call.

b. Store inventory: This reduces a producer’s need to carry large stock, and cuts his warehousing expenses.

c. Supply capital: The producers need for working capital is reduced by buying his output and carrying it in inventory until it is sold.

d. Reduce credit risks: By selling to customers the wholesaler knows and taking the loss if these customers do not pay.

e. Provide market information: As an informed buyer and seller closer to the market, the wholesaler reduces the producer’s need for market research.
The roles and services of wholesaler’s to retailers: Manufacturers want retailers to promote and sell their brands from their product lines. On the other hand, wholesalers have a strong vested interest in building up their retail customers as merchants of assortments of multiple brands in multiple product lines.

Hence, it is quite likely that an individual wholesaler will be able to supply a large part of the retailer’s requirements for merchandise, particularly in the case of small retailers establishment. The advantages to the retailer derived from using traditional wholesalers may be described as follows:

(1) Wholesalers can give their retail customers a great deal of direct selling aid in the form of price concessions of featured items, point-of-sale promotional materials, and cooperative advertising, most of which are frequently generated by suppliers for wholesalers to pass along to retailers.

(2) Wholesalers often can provide assistance in planning store layout, building design, and material specifications.

(3) Wholesalers can offer retailers guidance and counsel in public relations house keeping and accounting methods, information system, administrative procedures.

2.13.2 The role of wholesaler for customers: (service to customers)

(a) Anticipate needs: forecast customer’s demand, and buy for them.

(b) Regroup goods: provide the assortment wanted by customers at the lowest possible cost.

(c) Carry stocks: carry inventory so customers don’t have to store a large inventory.

(d) Deliver goods: provide prompt delivery at low cost.
(e) Grant credit: give credit to customers, perhaps supplying their working capital.

Note: This financing function may be very important to small customers and is sometimes the major reason why they use wholesalers rather than buying directly from manufacturers.

(f) Provide information and advisory services: supply price and technical information as well as suggestions on how to install and sell products.

(g) Provide part of buying function: offer products to potential customers so they do not have to hunt for supply source.

(h) Own and transfer title to goods: to permit completing a sale without the need for other middlemen, and speeding the whole buying and selling process.

2.13.3 The role of wholesaler's services to business and industrial users:

Business and industrial users from a particular market segment comprised of manufacturers of large components that purchase small subcomponents from wholesalers, and business and organizations that purchase, maintain, repair or operate supplies from wholesaler distributors.49

Manufacturers of many types of industrial goods tend to be more engineering-oriented than marketing oriented. They prefer to allocate resources to research and production rather than to distribution, which they know have been historically delivered a much lower return on investment. Industrial distributors sell primarily to manufacturers.

2.13.4 The kinds of wholesalers in business:

There are several kinds of wholesaling in the business environment, which should be identified by manufacturers and even customers.
For instance, if we are following to purchase nonperishable goods, like hardware, electrical and electronical appliances, etc. we certainly search about these kinds of distributors in the market, or outlets.

Thus, at first nature and functions in wholesaling should be identified.

2. 13. 4. A Merchant wholesalers:

Independently owned business that take title to the merchandise they handle. In different trades they are called jobbers, distributors, or mail supply houses. There are two basic kinds of merchant wholesalers: (i) service-sometimes called full service wholesalers, (ii) limited function or limited-service wholesalers.

(1) Full-service wholesalers:

They provide all the wholesaling function and full line of service, carrying stock, maintaining a sales force, offering credit, making deliveries, and providing management assistance. They have two types of full-service wholesalers: wholesale merchant and industrial distribution.

a- Wholesaler merchant: They sell primarily to retailers and provide a full range of services. There are two types of sub-categories such as, general merchandise wholesalers and specialty wholesalers.

b- General merchandise wholesalers: They carry several merchandise lines, while special line wholesalers carry one or two lines in greater depth.

c- Specialty wholesalers: They specialize in carrying only part of a line.

d- Industrial distributors: Industrial distributors are resellers; stocking middlemen for industrial goods, such as they are full-service reseller. They stock, sell, deliver, grant credit, provide customer services, and are becoming
highly sophisticated both as marketing experts in the field and within their own organization.

Such as sell to manufacturers rather than to retailers may carry broad range of merchandise, a general line, or a specialty line.

(2) **Limited-service wholesalers**:

They provide only some wholesaling function, as well as to manufacturers rather than to retailer. They offer fewer services to their suppliers and customers than full-service wholesalers.

There are several types of limited-service wholesalers which are as follows:

a. **Cash-and-carry wholesalers**: They have a limited line of fast moving goods and sell to small retailers for cash. Normally do not deliver.

b. **Truck wholesalers**: Perform primarily a selling and delivery function carry a limited line of semi perishable merchandise, which they sell for cash as they make their rounds of supermarkets, small groceries, hospitals, restaurant, factory cafeterias, and hotels.

c. **Drop shippers**: They operate in bulk industries, and own the goods they sell—but do not actually handle, stock, or deliver them. These wholesalers are mainly involved in selling. They get orders from wholesalers, retailers, or industrial users and pass these orders on to producers. Drop-shippers commonly sell products which are so bulky that additional handling would be expensive and possibly damaging. Such as the drop-shipper assume title and risk from the line the order is accepted to its delivery to the customer.

d. **Rack jobbers**: A rack-jobber specializes in nonfood items which are sold through grocery stores and supermarkets and often displays them on his own wire racks. Rack-jobbers are almost service wholesalers, except that
they usually are paid cash for the stock sold or delivered. They do little promotion because they carry many branded items that are highly advertised.

**e. Producer’s cooperative:** They operate almost as full service wholesalers with the ‘profits’ gain to the cooperatives customer member but some of the wholesaling functions may be cut out because the producers don’t want them. The successful producer’s cooperatives have emphasized the sorting out process to improve the quality of farm products offered to the market. They often attempt to improve product quality and promote a co-op brand name.

**f. Mail-order wholesalers:** They sell out of a catalog, which may be distributed widely to industrial customers or retailers. No sales force is maintained to call on customers. Orders are filled and sent by mail, truck, or other efficient means of transportation. Usually these wholesalers operate in the hardware, jewelry, sporting goods, and main customers are business in small outlying areas.

(3) **Brokers:**

They bring buyers and sellers together and assisting in negotiation. Unlike the auction company, a broker does not need any physical facilities brokers may not even have a separate office. Their product is information about what buyers need and what supplies are available. When a deal is completed, they earn a commission from whoever hired them.

(4) **Agents:**

They do not take title the goods they sell. Their main purpose is to help in buying and selling. They usually provide even fewer functions than the limited-function wholesalers. They have on a more permanent basis than brokers do. Such they may operate at relatively low cost too sometimes 2-6 percent commission of selling price.
There are several types that describe as follows:

**a. Manufacturer’s agents:** They are representing two or more manufacturers of complementary lines. They enter into a formal written agreement with each manufacturer covering pricing policy, territories, order handling process, delivery service and warranties, and commission rates. They know each manufacturer’s products.

They often used in such lines as apparel, furniture, and electrical goods. Most manufacturer’s agents are small business, with only a few employees, who are skilled salespeople.

(i) **Selling agents:** Takes over the whole marketing job of a manufacturer not just the selling function. A selling agent may handle the entire output of one or more producers, even competing producers, with almost complete control of pricing, selling, and advertising. Financial trouble is the main reason a producer calls in a selling agent. The selling agent may provide working capital, while taking over the affairs of the business.

(ii) **Purchasing agency:** They normally have a long-term relationship with buyers and make purchases for them. They provide helpful market information to clients and help them obtain the best goods and prices available.

(iii) **Commission merchants:** They handle goods shipped to them by sellers. Complete the sale, and send the money, minus their commission to each seller. They are used most often in agricultural marketing by farmers who do not want to sell their own output and do not belong to producers’ cooperatives.

Commission merchants are sometimes used in other trades, too, such as textiles.
(iv) **Manufacturer's and retailer's branches and offices:** Wholesaling operations conducted by sellers or buyers themselves rather than through independent wholesalers. Separate branches and offices can be dedicated to either sales repurchasing. There are sub-categories as below:

(1) **Sales branches and offices:** Sales branches and offices are set up by manufacturers to improve inventory control, selling, and promotion. Sales branches carry inventory and are found in such industries as lumber and automotive equipment and parts. Sales offices do not carry inventory and are most prominent in dry-goods and industries.

(V) **Miscellaneous wholesalers:** A few specialized types of wholesalers are found in certain sectors of the economy. These include agricultural assemblers Petroleum bulk plants and terminals, and auction companies.  

2. 13. 5 **Wholesaler marketing decisions:**

In recent years, wholesaler have experienced mounting competitive pressures. One major drive has been to increase asset productivity by managing their inventories and receivables better.

They also should improve their strategic decisions on target markets, product assortment, services, pricing, promotion, and place.

How they can improve their strategic decision, which is important question, that they must have good experience from markets, customers and the most important factor such as competitors.

a. **Strategic decisions for target-market:**

The wholesalers need to define their target markets and not try to serve everyone. They can choose a target group of customers according to size criteria, type of customer, need for service or other criteria. Within the target group they can identify the most profitable customers and design stronger
offers to build better relationships with them. They can propose automatic reordering systems, set up management-training and advisory systems, and even sponsor a voluntary chain. They can also discourage less profitable customers by requiring large orders or adding surcharges to small ones.

b. Strategic decisions for pricing:

Wholesalers usually mark up the costs of goods by a conventional percentage, say 20% to cover their expenses. Expenses may run 17% of the gross margin, leaving a profit margin of approximately 3 percent. In grocery wholesaling, the average profit margin is often less than 2 percent. Wholesalers are beginning to experiment with new approaches to pricing. They might cut their margin on some lines in order to win important new customers. They will ask suppliers for a special price break when they can turn it into an opportunity to increase the supplier sales.

c. Strategic decisions for product – assortment and services:

The wholesaler’s product is their assortment. Wholesalers are under great pressure to carry a full line and maintain sufficient stock for immediate delivery. But costs of carrying huge inventories can kill profits. Wholesalers should know and reexamining that how many lines to carry and are choosing to carry only the more profitable ones. They know which services counts most in building strong customer relationships and which ones should be dropped or charged for. The key is to find a distinct mix of services valued by their customers.

d. Strategic decisions for promotion:

Wholesalers rely primarily on their sales force to achieve promotional objectives. However, wholesalers would benefit from adopting some of the image-making techniques used by retailers. They need to develop an overall promotion strategy involving trade advertising, sales promotion and publicity.
They also need to make greater use of supplier promotion materials and programs.

e. Strategic decisions for place:

Wholesalers typically located in low-rent, low tax areas and put little money into their physical setting and offices. Often the materials-handling systems and order-processing systems lagged behind the available technologies.\textsuperscript{52}

One method for progressing of wholesalers is to improve materials-handling procedures and costs by developing automated warehouses.
2. 14. 0 Dealers:

Dealers are independent businessmen who are tied to the manufacturer by a franchise, at least typically. This provide for greater control over the distributional operation by the manufacturer. However, his ability to exercise it is a variable. It depends to a major extent upon the value to the dealer of the right to represent that particular manufacturer.

There are two major types, as exclusive and non-exclusive.

"Dealer is an individual or firm which sells merchandise without altering it, the term is most frequently applied to retailers, e.g. automobile dealers, but is sometimes used synonymously with wholesaler or distributor."\(^{53}\)

It will not be an exaggeration to say that in most businesses, the individual dealer is the pivot in the marketing effort. In their local the individual dealers are a force to reckon with.

They significantly influence the process of decision-making by the local consumer. They are well aware of the customer's needs. They are in the best position to provide the required services to the customers. It is in view of these factors that marketing success or failure in many businesses is often made at the dealer level.

Effective marketing depends on a proper appreciation of the pre-eminent position of the dealer. A progressive firm will not perceive the retail dealer as a mere "outlet" from where the product flows out. Instead, it would assign to the dealer a pivotal role in market penetration, market development and sales promotion.
2. 14. 1 Dealer-principal relations or trade relations mix:

Normally, the relations between a firm and a dealer revolve largely around the following factors:

Territory of operation.

Remuneration to the dealer.

Services / Functions to be performed by the dealer.

Services / Functions to be performed by the principal.

The firm normally expects a dealer to establish the product in the market, maintain fair trade practices, provide service to consumers, and help in promoting the product. The dealer in turn expects the firm to deliver a quality product, make adequate and regular supplies of the product, provide reasonable profits, for the dealer in the price structure and render good sales promotional support.

2. 14. 2 Dealer selection:

In view of the high role-played by the individual retail dealers in many businesses, the firm/marketing agency should take great care in the selection and appointment of the dealers. Granting franchise to undeserving or unsuitable dealers will be detrimental to the business interests of the firm. The firm should look for a number of essential qualities and qualifications in their prospective dealers. Some of these qualifications are common to all dealers irrespective of the product lines handled by them. Some other qualifications are product specific, financial strength, business capacity, credit worthiness, salesmanship, experience and expertise in the line, etc., have to be looked for in all the prospective dealers as basic requirement.

Qualities to be looked for while selecting dealers.
a- Business reputation/business standing.
b- Business capacity and salesmanship.
c- Expertise in the line.
d- Previous experience in the line.
e- Financial capacity and willingness to invest in the line.
f- Credit-worthiness.
g- Willingness to extend credit.
h- Capacity to offer.
  i- Required assortments of products.
  ii- Required Services.
j- Capacity to provide: storage facilities, showrooms, shops, service workshops, salesmen and servicemen commensurate with expected business.
k- Good relations with.
  i. Concerned government officials.
  ii. Sub-dealers, if any.
  iii. Consumers, especially bulk consumers.
  iv. Opinion leaders in the market.
  v. Banks and other financial institutions.

Positive attitude towards the company on the part of the dealer and his key personnel.

Depending on the product characteristics, the marketing, environment and the objectives of the firm, the criteria could be modified appropriately at the relative emphasis of the different criteria changed.
Sometimes, there can be a conflict between one consideration and another, for example, between financial soundness and aggressive sales capacity in this situation, the dealer who is rated very high in financial capability may not possess aggressive sales capability, care must be taken in applying the different criteria in such cases.

Firms that have not established their products in the market may not have much of a choice in the matter of dealer selection.

In the case of specialty products, selection of dealers requires elaborate efforts.

2.14.3 Managing the dealer network:

The designing of the channel and the creation of the channel are not everyday tasks in channel management. In the broadest sense, managing the dealer network will include dealer servicing, dealer administration, dealer compensation, and dealer motivation, dealer training and dealer development.

Evidently, better servicing of the dealers, better communication with them, providing better motivation and training to them would result in superior loyalty of the dealers.\(^{56}\)

a- Dealer – principal relations:

Dealer-principal relations must provide satisfaction to both. Evidently, the development of the trade relations mix in the proper way is the fundamental task in dealer network management. The trade relations mix must be so developed as to provide reasonable and fair satisfaction to both, the firm and the dealer. It is the first duty of the firm to offer available business proposition to the dealer.
b- Dealer compensation / Dealer margins:

Trade margin is no doubt, the prime element in dealer-principal relationship. So in the first place, the firm should ensure that the trade margin or commission is adequate to enable the dealer to make a reasonable profit out of the business.

In the past, expectations and requirements keep changing with new developments. The dealers were generally satisfied with modest trade margins. Their investment in the business infrastructure was generally low. Their expectations regarding net profits from the business were also modest.

The new generation of dealers, have more attractive shops and showrooms. It may be necessary under the new circumstances to shift the attention from “gross margins” to retained earnings’ of the dealers.

C- Dealer induction:

Proper induction of the dealers into the organization is another important part of dealers’ management. Many firms view dealer induction as synonymous with dealer training, while induction does include a training component, it needs to be handle as a distinct function.

Analysis shows that firms that strive for a distinctive position in the matter of channels attach great importance to dealer induction.

D- Dealer motivation:

To be effective, the dealers have to be constantly motivated. The firm should be constantly striving to satisfy the needs of the dealers. There are some factors to explain of importance of the dealer motivation.
1. Attractive trade margins:

An attractive trade margin is no doubt, the firm factor in dealer motivation. After all, the main objective of any dealer is to earn a reasonable return on his investment.

2. Motivational elements other than trade margins:

Besides an attractive trade margin, many other motivational elements will also have to be used by a firm towards ensuring proper dealer motivation.

3. Prompt delivery, efficient service and incentives:

The firm should service the dealers efficiently. Delivery of products must be prompt and adequate. Technical service support and advisory assistance must be provided wherever necessary, special incentives like quantity rebates, off-season rebates, etc. should be also used to motivate the dealer.

4. Harmonious dealer relation is a very important factor in dealer motivation.

Dealers need help, sympathy and understanding. Giving such advice and sales tips will result in good dealer motivation. The dealers must be encouraged to take up their trade problems with the firm. The dealers should never be given a feeling that they are neglected by the firm.

5. Effective communication:

Maintaining effective communication with the dealers all the time is another essential element of dealer motivation. Effective communication, by itself, will give the dealers a sense of participation.

The marketing executives should know to treat and humor the dealers.
2.14.4 **Dealers training:**

Dealer training is another important part of dealer management. The prime purpose of dealer training is to improve the performance of the dealers through a sharpening of their sales skill. The dealers are required to sense, serve and satisfy the needs of the customers. Thus, the dealer should be skillful in the business today.

2.14.5 **Performance appraisal of individual dealers:**

Periodical evaluation of the performance of the dealers is yet important aspect of channel management. The performance appraisal must be done with a view to identifying the specific strengths and weaknesses of the dealers. The appraisal should also identify the areas that can be improved through training.

As a matter of fact, appraisal must be based on all relevant factors. The appraisal has to be based on pre-agreed standards of performance. Performance appraisal solely based on sales volume will be inadequate.

Other relevant criteria besides the sales performance in quantitative terms must be used in the appraisal of the dealers.

2.14.6 **Criteria for dealer appraisal:**

The criteria may vary from company to company and product to product also. The following can be taken as the common aspects in this regard:

a-Market share.

b-Sales intensity (intensity of coverage of the market allotted).

c-Sales point facilities.

d-Strong space provided.

e-Inventory holding support.
f- Standard of service provided to customers.
g- Enlistment of new accounts.
h- Market awareness.
i- Provision of market intelligence.
j- Promotional support.
k- Public relations.
l- Timely payment of bills.
m- Refusal of acceptance of stocks and dishonoring of documents.
n- Submission of reports.
2. 15. 0 Physical Distribution:

While we are talking about marketing channel in process of marketing functions, we should consider that it is a very important function in the channel.

Because dealers and distributors (wholesalers, retailers, and other merchandise member in channel) can not continue their business without physical distribution performances, this is very important and essential part of distributors function uncounted by the customers. Because may be the customers expect from them, that they deliver required goods to their house, office or anywhere.

In all of the types of goods they should give warranty for delivering to place of customers, especially in industrial and consumer commodities, for instance, heavy machinery with installation and consumer goods like refrigerator, and so on.

Of course, physical distribution starts at the factory. Manufacturers and managers try to select a set of warehouses and transportation carriers that will deliver produce goods to final destinations in the desired – time and/or at the lowest total cost. In all marketing channels the product must be moved in the right quantity at the right time to a specific place in order to be delivered most efficiently to the end user.

2. 15. 1 The physical distribution concept:

The process of getting goods to customers has traditionally been called physical distribution.\(^{58}\)

The four main tools of the physical distribution concept are (a) a total cost perspective, (b) the understanding of relevant trade-off, among costs, (c)
the notion of zero sub-optimization, and (d) the total system perspective or supply chain management, each is discussed briefly below:\footnote{59}

\textbf{a-The total cost perspective:} The key to the total cost approach is to consider simultaneously the cost of all physical distribution elements, visible and hidden, when trying to achieve specified levels of customer service. Because all physical distribution activities are independent, a change in one will affect the others. The managers should strive to minimize the total costs of physical distribution rather than attempt to minimize the cost of each element.

\textbf{b-Cost trade-offs:} The cost trade-offs concept, which goes hand in hand with the total cost approach, recognizes that the cost patterns of the different activities of the firm sometimes display characteristics that put them in economic conflict with one another.

\textbf{c-Zero sub-optimization:} When one distribution function is optimized, the result will likely be other functions becoming sub-optimize e. g.,

i- Lowering warehousing costs by reducing inventory levels might also reduce customer service or inhibit corporate purchasing agents from making advantageous purchases.

ii -Reducing inventories might involve reducing assortment and thus reducing the system’s ability to fill orders on time.

iii- Increasing the speed of delivery might increase customer service but could also involve higher transportation costs and thus a higher total cost.

iv- Setting a high level of customer service might involve an increase in inventory and in inventory-carrying costs.
Attaining a goal of lower transportation costs might result in increased inventories and a reduced level of customer service.

The total system perspective: This concept is an extension of the physical distribution concept and is the key to managing the physical distribution function. It extends the physical distribution concept to cover trading off the cost of performing different functions along to the entire marketing channel.

2. 15. 2 Physical distribution strategy revision:

The question most often asked by management is when to revise the firm's physical distribution strategy. Existing strategies can become outdated even if they are continually undergoing improvement. Substantial changes in the following factors may indicate a need for strategy revision:

a. Demand:

Geographic dispersion and level of demand greatly determine the configuration of distribution networks. Firms may project disproportionate growth or decline in one region of the country compared with a general growth or decline overall. Although the adjustment to general growth or decline may require only expansion or contraction at current facilities, shifting demand patterns may require that new warehouse be located in rapidly growing markets, whereas facilities in slow-growth areas experience little or no expansion.

b. Customer Services:

This usually includes inventory availability, speed of delivery, and order-filling speed and accuracy. The cost of transportation, warehousing, inventory carrying, and order processing rise disproportionately as service levels are increased.
Therefore, distribution costs will be sensitive to the level of customer service provided, especially if it is already high. Replanning usually is needed when service levels are changed due to competitive forces, policy revisions, or arbitrary service goals different from those on which the distribution strategy originally was based. Conversely, minor changes in service levels when they already are low—probably will not trigger the need for re-planning.

c. Product characteristics:

Distribution costs are sensitive to product weight, volume, value, and risk. In the channel, these characteristics can be altered through package design or finished state of the product during shipment and storage.

d. Distribution costs:

The amount of money a firm spends on distribution often determines how often its strategy should be re-planned. All other factors being equal, a firm producing high-valued goods, such as machine tools and computers, with total distribution costs of 10% of sales or less may give little attention to distribution strategy. On the other hand, companies producing packaged industrial chemicals or food products may have distribution costs as high as 30% of sales.

When costs are that high, even small changes in interest rates and fuel price can make distribution strategy reformulation worthwhile.

e. Pricing Policy:

Some suppliers transfer the responsibility and cost of transportation to the buyer, thus taking decisions on important distribution cost elements out of their own hands. Many industrial products firms do this though pricing policies such as free-on-board (F.O.B) factory, prepaid transportation charges, and invoice add-ons. Because these firms do not pay for transportation, there is little incentive to include it as an economic force in setting distribution
strategy. Should the price policy be changed to a delivered arrangement, the
supplying firm would directly incur the transportation charges. This can result
in the addition of warehouses and inventory to the distribution system.
Shifting the terms of the price policy, especially shipment routing and
quantities and responsibility for the transportation decision, can signal a need
for strategy reformulation.

2.16.0 Market Logistics:

Physical distribution as the process of getting goods to customers has
traditionally been called physical distribution. Market logistic involves
planning, implementing, and controlling the physical flows of materials and
final goods from points of origin to points of use to meet customer
requirements at a profit. Logistic management encompasses two distinct but
integrated cycles that are, materials management and physical distribution
management.61

2.16.1 Market logistic objectives:

Many companies state their market-logistics objectives as getting the
right goods to the right place at the right time. But, no market-logistic system
can simultaneously maximize customer service and minimize distribution
costs. A company cannot achieve market-logistics efficiency by asking each
market logistics manager to minimize his or her own costs. Market-logistic
costs interact and are often negatively, some examples are / like:

- The traffic manager favors rail shipment over the air shipment.
- The shipment department uses cheap containers to minimize shipping cost.
- The inventory manager favors, low inventories to reduce inventory cost.
- The starting point for designing the market-logistics inventory is to study
  what the customers require and what competitors are offering.
- The company must then research the relative importance of these service outputs.

- The company must also take into account competitors' service standard.

- The company ultimately has to establish market-logistic objectives to guide its planning.

2. 16. 2 The material management cycle:

Goods and services flow to the firm through a process of material acquisition and must be managed as incoming material with an effective system that includes inbound transportation and inventory management. This process is called the materials management cycle in most firms. Transportation and purchasing strategies, warehousing design and operation, and inventory control methods are tailored in this cycle to the cost-effective introduction of these material resources into the firm.

2. 16. 3 The physical distribution cycle:

Physical distribution is a term more appropriately applied to the outgoing product flow from the firm to customers through some defined network of transportation link and storage or distribution nodes called a distribution network. This network may tie the firm to an individual consumer or to other firms that may either use the products produced in another stage of manufacturing, conversion, or service generation or serve as wholesalers or retailers in the distribution of the products to another set of customers.

2. 16. 4 Market-logistic decisions:

According to market logistic functions and concepts, four major decisions must be made with regard to market logistics.

Answer of the following questions are decisions in the market-logistics:

How should orders be handled?
The answer to the above question is searched in the order processing.

Where should stocks be located?
The answer of the above question is searched in the warehousing.

How much stock should be held?
The answer of the above question is searched in the inventory.

How should goods be shipped?
The answer of the above question is searched in the transportation.

The kinds of decision in the market logistic are following.63

A. Order Processing:

Marketing logistics begins with a customer order. The main objectives of companies are trying to shorten the order-to-remittance cycle, that is, the elapse time between the receipt of an order, delivery of the order, and payment for the order. This cycle involves many steps, including transportation of the order by the salesperson, order entry and customer credit check, inventory and production. The longer this cycle takes, the lower the customer’s satisfaction and the lower the company’s profits.

B. Warehousing:

There are three basic types of warehouse facilities available to channels members, public warehouse, contract warehouse and private warehouse.

1. Public warehouse: An independently owned storage facility serving a variety of users. The public warehousing does not own or take title to the goods stored. The user of the facility is charged on the basis of cost per unit and the storage arrangements are made on a month-to-month basis for other
services such as receiving, packing, and invoicing may be available at additional cost.

2. Private warehouse: A storage facility operated by the user. It has the advantage of total user control, important when items needing special treatments (such as chemicals and pharmaceuticals) are being stored or when storage volume is large and handling volume is constant.

3. Contract warehouses: A storage facility which combines public and private warehousing services. It is like a public warehouse in that it serves a variety of customers. It differs from a public warehouse, however, in that the arrangements are long-term rather than on a month-by-month basis.

The contracts may also include special warehouse services such as packaging or assembly. It provides the stability of a private warehouse, therefore, through long-term leases and special services, independently owned and operated.

A commercial establishment in which large quantities of goods may be stored. Every company has to store its finished goods until they are sold. As storage facility is necessary because production and consumption cycles rarely match. The company must decide on a desirable number of stocking locations. More stocking locations means that goods can be delivered to customers more quickly.

C. Inventory:

Inventory levels represent a major market-logistics decision affecting customer satisfaction.

Inventory: (a) The assets of a business other than those commonly referred to as “plant and equipment”, i.e. Inventory includes raw material, semi-finished goods to be either used internally or offered for sale. (b) A detailed, often descriptive list of goods held in stock for future sale.
Inventory decision making involves knowing when to order and how much to order, the optimal order quantity can be determined by observing how order processing costs and inventory-carrying costs sum up at different order levels.

These inventories may be held at the point of production or positioned in wholesale or retail distribution centres that serve, together with outbound transportation, to define the physical distribution strategy of the firm.

Such inventory profits occurred on goods held in inventory during a period when the value of goods increased.

D. Transportation:

Markets need to be concerned with their company's transportation decisions. Transportation choice will affect product pricing, on-time delivery performance, and the condition of the goods when they arrive, all of which will affect customer satisfaction.

In shipping goods to its warehouses, dealers, and customers, the company can choose among five transportation modes: Rail, air, trucks, waterway, and pipeline.

Shippers are increasingly combining two or more transportation modes. In deciding on transportation modes, shippers can choose from private, contract, and common carriers. Transportation decisions must consider the complex trade-offs between various transportation modes and their implications for other distribution elements, such as warehousing and inventory. As transportation costs change over time, companies need to reanalyze their options in the search for optimal market-logistics arrangement."
Planning and designing the distribution channel:

We have known that a business firm can take its product to the user in more ways than one. It can use different types of marketing intermediaries, it can structure its channel into a single tier or a two-tier or a three-tier outfit. But it cannot easily determine which one is the best.

Before arrival to planning and designing channel, at first setting channel objectives should be selected and identified, then planning and designing steps will take place.

Thus, before designing a specific channel for a given product or service line, the market planner should decide what the firm's general distribution objectives will be for that line. The usual approach is to define general distribution objectives in terms of the following requirements:

Setting channel objectives viz.,

a. The product or service should be readily available to the maximum number of customers in the target market.

b. The channel must be able to provide adequate support for the product in terms of proper installation, post-sale service, financing, and so on.

c. Channel members must be able to exert and aggressive promotional effort on behalf of the product.

- The entire channel should be able to physically move products to the place and at the time required.

e. The channel selected should have the lowest total cost in meeting the above objectives.

The firm has to carefully analyze many such issues and then choose the channel design.
Main steps involved in developing the channel design:

The following are the main steps involved in developing the channel design:

1- Formulation of channel objectives.
2- Identification of channel functions.
3- Analyzing the product characteristics and linking channel design to the product.
4- Evaluation of the distribution environment including legal aspects.
5- Evaluation of competitor’s channel policies.
6- Evaluation of company resources and matching the channel design to the resources.
7- Identification of alternative channel designs and selection of the one that would be most conductive for the attainment of the objectives of the firm.

It is necessary to explain as elaborate steps one by one.

2.17.1 Formulation of channel objectives:

Formulation of the channel objectives is the first step in planning and designing a distribution channel. The objectives would clarify as to what is sought to be achieved by having the channels.

Basically, any business firm seeks to realize the following main objectives through its channel:

- Achievement of the best possible coverage of the target market.
- Ensuring that the consumer incurs the minimum exertion,
- Ensuring that the firm is able to carry on with it’s manufacturing activities.
- Ensuring that the distribution is cost effective.
In each of the above areas, a firm specifies the precise level it seeks to realize. The intensity of market coverage sought, the service level sought to be maintained and other objectives will naturally vary from firm to firm. Channel objectives emanate from marketing objective, and channel design emanates from channel objectives.

- Identification of the channel functions:

The channel functions obviously have to be tune with the predetermined channel objectives.

- Analyzing the product characteristics and linking channel design to the product:

The different product requires different channel arrangement. The firm should analyze the characteristics of the product and choose the channel design that is most suited to the product. Some characteristics that should be attended for analysis are: For example in the case of industrial products, the size of sales to each customer at a time is very large; the potential buyers to be approached are few; the products are complex and technical in nature; they are often made to order and as per specifications of the buyers; they have a very high unit value; they need extensive presale services, installation services, commissioning services, post-sale services and repair; and they are purchased only once in a way as their replacement rate is low. In the case of consumer products differ from the industrial products in all these respects.

Barring a few exceptions, the consumer products are mass products and are non-technical and least complex; they have a low unit value; they are regularly consumed and replaced; and they require little or no after-sale-service.

Product characteristics influence not merely the basic design of the channel, but also the type and number of intermediaries required.
2. Evaluation of the distribution environment:

Selection of channel model has to necessarily take into account the distribution environment obtaining in the country/region and in the specific business in which the firm is engaged. Distribution environment, in the broader sense, includes the legal environment as well, in so far as its implications on distribution are concerned.

-Evaluation of competitors channel patterns:
The firm should also study the competitor's patterns before deciding its channel design. Quite a number settle down for a follow the leader policy in the choice of channel design.

-Evaluation of company resources and matching the channel design to the resources:

The choice of distribution channel is also governed by the resources available at the disposal of the organization. Firm with limited resources depend on conventional channels. For example, small firms with relatively small volume of business will normally find it uneconomical to opt for own channels.

As a matter of fact, they find it most economical to sell to a small number of conventional dealers/distributors who operate in the wholesale market. On the other hand, firms with large size marketing operations will be in a position to go in for highly intensive distribution committing a good deal of resources to the distribution task.

In some cases, even large sized firms look for a distribution arrangement wherein they will not be required to pump much of their own resources in terms of men, materials, facilities and money.
2. 18. 0 Identification of alternative channel designs and selection of the one that suits the firm best:

The range of channel alternatives open to a firm will get narrowed down after the firm examines its distribution objectives and resources, the specific needs of its products and customers and the relevant environmental characteristics. Two important considerations are cost and efficiency.

A compromise may be called for between the efficiency expected to the channel and the cost of the channel. The channel that is efficient but relatively less expensive has to be chosen.

Two types of evaluation an economic evaluation and a conceptual evaluation may be necessary.

2. 18. 1 Policy making (in marketing channel):

Marketing channels also have a number of policies that channel manager can use to administer distribution systems. However, because each and every policy used in managing marketing channels restrains or redirects the activities of the various numbers of channels, there is always the possibility that, at onetime or another, the affected parties are going to react negatively to the restriction imposed.

The policies addressed below are as follows:

Market coverage policies.
Customer coverage policies.
Pricing policies.
Product line policies.
Selection and termination policies.
Ownership policies.
2. 18. 1. A Market coverage policies.

One of the key elements of channel management is deciding how many sales outlets should be stabilized in a given geographic area and what kinds of participation in the marketing flows should be required from each of the markets so that the needs of existing and potential customers may be adequately served.

Three basic coverage policies appear to be available:

- Intensive distribution, whereby a product or brand is placed in as many outlets as possible.

- Selective distribution, whereby a product or brand is placed in a more limited number of outlets in a defined geographic area, and

- Exclusive distribution, whereby a product or brand is placed in the hands of only one outlet in a specific area.

Therefore two researchers found styles of selecting between type of product and type of store.
## Exhibit 2.4 Selection of Suitable Coverage based on the Relationship Between Type of Product and Type of Store

<table>
<thead>
<tr>
<th>Classification</th>
<th>Consumer Behavior</th>
<th>Most likely form of distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convenience store / Convenience goods</td>
<td>The consumer prefers to buy most readily available brand of product at the most accessible store.</td>
<td>Intensive</td>
</tr>
<tr>
<td>Convenience store / Shopping goods</td>
<td>The consumer selects his purchase from among the assortment carried by the most accessible store.</td>
<td>Intensive</td>
</tr>
<tr>
<td>Convenience store / Specialty goods</td>
<td>The consumer purchases his favorite brand from the most accessible store carrying the item in stock.</td>
<td>Selective Exclusive</td>
</tr>
<tr>
<td>Shopping store / Convenience goods</td>
<td>The consumer is indifferent to the brand of product he buys but shops different stores of secure better retail service and/or retail price.</td>
<td>Intensive</td>
</tr>
<tr>
<td>Shopping store / Shopping goods</td>
<td>The consumer makes comparisons among both retail-controlled factors and factors associated with the product (brand)</td>
<td>Selective Exclusive</td>
</tr>
<tr>
<td>Shopping store / Specialty goods</td>
<td>The consumer has a strong preference as to product brand but shops a number of stores to secure the best retail service and/or price for this brand.</td>
<td>Selective Exclusive</td>
</tr>
<tr>
<td>Specialty store / Convenience goods</td>
<td>The consumer prefers to trade at a specific store but is indifferent to the brand of product purchased.</td>
<td>Selective Exclusive</td>
</tr>
<tr>
<td>Specialty store / Shopping goods</td>
<td>The consumer prefers to trade at a certain store but is uncertain as to which product he wishes to buy and examines the store assortment for the best purchase.</td>
<td>Selective Exclusive</td>
</tr>
<tr>
<td>Specialty store / Specialty goods</td>
<td>The consumer has a preference for a particular store and for a specific brand.</td>
<td>Selective Exclusive</td>
</tr>
</tbody>
</table>

**Source:** Louis stern and others “marketing channel”, P. 343.
On the other hand, as channel members move toward exclusive distribution, role expectations become more sharply delineated. Specific agreements are possible with respect to degrees of participation in the marketing flows. But each of these agreements demand careful attention to right and obligation.

For an exclusive distribution policy, the bargaining points (and relevant trade offs) generally concern the following:

i. Products covered:

The specific items in the line that are to be handled by the exclusive wholesaler or retailer must be clearly delineated.

ii. Classes or type of customer:

Agreement over who is responsible for various types of customers must be arrived at to prevent future dysfunctional conflict. Thus, as in the case of products covered, the supplier may wish to retain the right to sell directly to specific classes of customers, such as the military, or to very large commercial accounts.

iii. Territory covered:

Clearly, this is another crucial element in establishing relevant domains. Thus agreement on territorial boundaries can prevent future jurisdictional disputes among the distributors handling the supplier’s products.

iv. Inventories:

The questions to be resolved here are who is going to bear the burden of holding and owning inventories and how much inventory is to be held, and where. In situations of fluctuating price levels, these questions become particularly acute.
v. Installation and repair service:

This bargaining issue is obviously relevant for durable goods in both the industrial and consumer goods sectors.

vi. Prices:

Under exclusive distribution policies, the supplier is likely to agree to some form of price or margin guarantee in times of declining market prices.

vii. Sales quotas:

The establishment of unrealistic sales quotas has brought about considerable friction in channel relations. In agreeing to an exclusive distribution arrangement, the parties involved should arrive at a consensus on the way in which the quotas are to be calculated.

viii. Advertising and sales promotional obligations:

Responsibilities for the development of catalogs, sales aids, display work local advertising and promotion, etc., must be specified in the agreement.

ix. Exclusive dealing:

In some situations, suppliers prefer that their distributors handle no products that will compete directly with their own. Exclusive “dealing” is product oriented, whereas exclusive “distribution” is geography oriented.

x. Duration, provision for renewal and termination:

If exclusive distribution is desired, then it is important that the specifics of each of the previous nine points be agreed on in writing. The contract established should, however, allow the parties enough flexibility to meet extraneous events and contingencies when they arise.
2. 18. 1. B Customer coverage policies:

Suppliers may wish to set policies regarding to whom wholesalers or retailers may resell their goods and services. For a variety of reasons, suppliers may wish to reserve certain customers as house accounts.

In other cases, suppliers may set customer coverage policies that have the goal of assuring capable of providing specific service outputs to their customer. This way, suppliers can be confident that their products are handled only by competent resellers.

In their attempts to prevent the emergence of “gray markets”, which appear when their brands are sold by unauthorized resellers.

In addition, suppliers might wish to allocate different accounts to different intermediaries. Customer coverage policies could be also used for safety reasons certain specialized dealers may be willing to screen potential customers and/or provide information required in a product’s use.

Posner has pointed out an economic rationale underlying the use of such restrictions:

There may be a class of customers who, because of size, organization, or special needs, do not require dealer services. The manufacturer may be in a better position than any dealer to provide these customers with whatever presale services they do require. If so, the manufacturer who allows his dealers to compete with him for such an account is inviting them to take a free ride on his services. He provides the services at a cost that he hopes to recoup in the price charged to these customers: the dealers then offer the customers a lower price, which they can do since they do not incur any services expense with respect to these customers.
2.18.1 C Pricing policies:

The price of goods and services are crucial magnitudes in every economic system. A customer makes purchases of goods or services to satisfy his need.

He will be, therefore, naturally concerned with the prices as his welfare or utility gains from consumption of the goods is constrained by them.

The price is a most important factor to establish and finding of the market and customer.

In this case we should recognize that how marketing channel members can establish a suitable price for commodity showing concern for market situation and customers willingness, competitors etc.

There are many ways in which prices and price level can be influenced through marketing channels.

Two types of policy making are as follows:

1. General situation for pricing policies.

2. Professional situation for pricing policies.

1- General situation for pricing policies:

There are four general types of situations when a firm has to decide pricing policies:

(a) When a firm must set a price for the first time, this will be obviously a very difficult situation for pricing. It arises when the firm enters in business with a new product for sale or introduces a new product to its existing line of
products or takes its regular products into a new geographical area or takes up new contracts for its services.

(b) When a firm considers initiating a price change, in this situation the firm contemplates changes in prices of its products or services.

(c) When competition initiates a price change, market condition will be rarely static. The type of price strategy that the firm should adopt for it depends on the nature of its market whether it is competitive or monopolistic or oligopolistic.

(d) When a firm produces several products that have interrelated demands and / or cost that is, there are joint or multi-products.

Alfred has given an elaborate scheme for identifying the situations for pricing policies. His scheme includes the above situations together with some more. He categorized the types of pricing policies situations on the basis of:

1- Type of product-whether it is a consumer good or an industrial input.

2- Type of competition – competitive, monopolistic or oligopolistic.

3- Age of product – whether it is a new product or existing product.

4- Nature of product-whether it is a single product or joint product or multi-product or vertically integrated product, and,

5- Variations in capacity, i.e. utilizing existing capacity or anticipating new capacity.

-Factors influencing pricing:

Two categories of factors – internal factors and external factors, influence the pricing decisions of any enterprise.

Numbers of factors in pricing

-Profit maximization in the short-term.
- Profit optimization in the long-term.
- A minimum return (or target return) on investment.
- A minimum return on sale turnover.
- Target sales volume.
- Target market share.
- Deeper penetration of the market.
- Entering new markets.
- Target profit on the entire product line irrespective of profit level in individual products.
- Keeping competition out, or keeping it under check.
- Fast turn around and early cash recovery.
- Stabilizing price and margins in the market.
- Providing commodities/services at prices that will stimulate economic development.

2- **Professional situations for pricing policies**:

Because these policies are aimed at reducing or restraining the amount of intra-brand competition, the indirect effect of the reducing is, in theory, supposed to be an increase in the price of the brand from what it would have been in the absence of the policies.

If the price is at a reasonable level, this mean gross margins available to resellers may be sufficient to pay for the provision of service outputs desired by end-users.
Two policies are described here that have a direct effect on price maintenance and price determination. We can think two types of pricing policies because their motivation and implementation are very different.

A. Price maintenance:

Typically wholesalers and retailers, may not resell their products. Because of this, the policies are frequently called 'resale price maintenance'. Price maintenance in marketing channel is the identification by suppliers, typically manufacturers, of the price below or above which other channel members cannot sale.

1. Shoppers can gain information and services at full-price dealer and then purchase through price discounter. By not offering the same level of presale and post-sale services as full price dealers, such as extensive product information and demonstrations, and post-sale installation, maintenance, and repair, discounter can 'free ride' on the services offered elsewhere. Full-services dealers will reduce services, leading to a reduction in demand, to the detriment of all parties. Resale price maintenance prevents discounting, reducing the extent of rival dealer free riding on services.

2- With local monopoly power, dealers will raise price above competitive levels, contrary to the interest of manufacturers and consumers. Through the use of maximum resale price maintenance, price is maintained at a competitive level.

3- Manufacturers must gain entry to dealers faced with limited shelf and floor space. For many goods, dealer networks compatible with a product's quality and image are required. Manufacturers purchase such access through higher markups, advertising and brand name drawing power, advertising allowances to dealers, and other expenditures in competition with rival brands. 

164
Other business reason for price maintenance include: (1) achieving channel member's goodwill. (2) Buttressing the price-quality image of a brand by preventing its use as a loss leader. (3) Providing quality signals via sale through elite retail stores who would otherwise avoid a brand sold to discounters. (4) Encouraging channel members to push the brand versus other brands they might carry. (5) Supporting a broad network of specialty stores who otherwise would not survive discount competition, and (6) assuring widespread and immediate availability of a brand.

Finally, because price maintenance supposedly assures positive profits, termination would be very costly to the channel members receiving them. Such powerful incentives are likely to discourage price maintainers from becoming price discounters.

2- Price discrimination:

When a seller offers or grants one buyer a lower price than another buyer on the same product, the seller is discriminating between the buyers by giving one of them a monetary reward, at the core of well conceived market segmentation schemes are discriminatory tactics, because segments are supposed to be solicited dissimilarly. In fact, optimal profits can only be achieved if sellers discriminate among buyers.

They suggest, instead 'segmented pricing' (i.e., price discrimination) with segmented pricing where management minimizes the need to compromise. Customer who are relatively price insensitive, costly to serve or poorly served by competitors can be charged more than those who are relative price sensitive, less costly to serve, or well-served by competitors. Both sales and profitability improve. The major price policies that are enacted by channel managers tend to revolve around reductions from list price, promotional allowances and services, and functional discounts. The rationale
for each of these is straightforward – the object is to increase demand, fight off competitors, reward customers, and/or compensate channel partners for services rendered.

2. **Product line policies:**

For a wide variety of logical reasons channel managers may wish to restrict the breadth or depth of the product lines that their channel partners sell. In this case, three rational policies—exclusive dealing, tying, and full-line forcing as well as the antitrust concerns surrounding them.

1. **Exclusive dealing:**

   Exclusive dealing is the requirement by a seller or lessor that its channel intermediaries sell or lease only its products or brands, or at least no products or brand in direct competition with the seller’s products. Such arrangements clearly reduce the freedom of choice of the intermediaries.

   Some of the managerial benefit of exclusive dealing are listed below:

   a. Resellers become more dependent on the supplier, enabling the supplier to secure exclusive benefit of the reseller’s energies.

   b. Competitors are foreclosed from selling through valuable resellers.

   c. With a long-term exclusive relationship, sales forecasting may be easier, permitting the supplier to achieve more precise and efficient production and logistics.

   d. Resellers may obtain more stable price and may gain more regular and frequent deliveries of the suppliers’ products.

   e. Transactions between resellers and the suppliers may be fewer in number and large in volume.

   f. Resellers and the supplier may be able to reduce administrative costs.
g. Both resellers and the supplier may be able to secure specialized assets and long-term financing from each other.

h. Resellers generally receive added promotional and other support as well as avoid the added inventory costs that go with carrying multiple brands.

A. Antitrust concerns:

Exclusive dealing lessons inter brand competition directly because competing brands available from other suppliers are excluded from outlets.

Channel intermediaries who are terminated because they violate the exclusive dealing policies of their suppliers by selling directly competitive products or brands are likely to have a difficult time claiming anti-competitive effects due to the termination. The reason is simple – by violating the suppliers policies by taking an additional brands, the intermediaries actually increased inter brand competition. Even though they were terminate for doing so in the process.

B. Tying:

Tying exists when a seller, having a product or service the buyers want (the tying product), refuses to sell it unless a second (tied) product or service is also purchased, or at least is not purchased from anyone other than the seller of the tying product. Thus a manufacturer of motion picture projectors the tying product might insist that only its film (the tied product) be used with the projectors.

Many of the business reason for using tying policies are similar to those for using exclusive dealing.

Additional reasons for tying, beyond these that apply from the discussion of exclusive dealing, are:
1- Transferring the market demand already established for the tying product to the tied product.

2- Using the tied product (paper) to meter usage of the tying product (copying machines).

3- Using a low-margin tying product (razor) to sell a high-margin tied product (blades)

4- Achieving cost savings via package sales.

5- Assuring the successful operation of the tying product (an automobile) by obliging dealers to purchase tied products (repair parts) from the suppliers.

2.18.1. E Selection and termination policies:

The sellers can select their own distributors according to their own criteria and judgment.

2.18.1. F Ownership policies:

The ownership policies are related to vertical integration by ownership, vertical integrated by merger, vertical integration by internal expansion, dual distribution, price squeezes, horizontal combinations or conspiracies. The ownership can have one or more than one above relativity in its policies, according to market and competitors situation.

(1) Vertical integration:

Vertical integration may come about through forward integration by a producer, backward integration by a retailer, or integration in either direction by a wholesaler or a logistics firm, such as a common carrier. Integration may be brought about by the creation of a new business function by existing firms or by acquisition of the stock or the assets of other firms.
(2) **Vertical integration by merger**:

Integration, whether by merger or internal expansion, may result in the lowering of costs and make possible more effective inter-organizational management of the channel. The possibility that vertical integration will foreclose competitors by limiting their access to sources of supply or to customers.

(3) **Vertical integration by internal expansion**:

This form of integration is limited only by the laws preventing monopoly or attempts to monopolize. A firm is ordinarily free to set up its own supply, distribution, and/or retailing system unless this would overconcentrate the market for its product.

(4) **Dual distribution**:

The term dual distribution describes a wide variety of marketing arrangements by which a manufacturer or a wholesaler reaches its final market by employing two or more different types of channel for the same basic product. However, the dual arrangement whereby manufacturers market their products through competing vertically integrated and independently owned outlets on either the wholesale or retail level often creates controversy. In all dual distribution situations, conflict among channel members is likely to be relatively high.

(5) **Price squeezes**:

A seller operating at only one market level in competition with a powerful vertically integrated firm might be subject to a price squeeze at its particular level. When a supplier to an independent retailer also competes with the retailer by owning its own outlets, the possibility of a price squeeze exists if the integrated supplier is more aggressive in setting retail prices at its own outlets than it is in setting wholesale prices to the independent dealers.
Finally, when vertical integration takes place and the company continues to employ other, nonintegrated channels as well, conflicts often arise with regard to "dual distribution system".

(6) **Horizontal combination:**

In dual distribution situations, the distinction between purely vertical restraints and horizontal restraints may be critical in determining the legality of a marketing activity.
Notes and References:


6- Ibid.

7-See, Kotler, Marketing Mgt, 1999- P ,533.

8- See, Stern and others, Marketing Channels. 1996- PP.3-4

9-Ibid.

10- Ibid.


13- See, Stern and others, Marketing Channels, 1996 PP. 6-8.


15- See, Philip Kotler, Marketing Mgt, and 1999- P.529.

16- Ibid.

17- Ibid.


22- Ibid PP. 387-379.
23- Ibid. P. 379.
24- Ibid. PP. 379-380.
29- See, Philip Kotler, Marketing Mgt. 1999-pp, 551-552.
31- See, Philip Kotler, Marketing Mgt, 1999- pp. 553-556.
34- See, Philip Kotler, Marketing Mgt, 1999- p. 568.
35- Ibid.
38- Ibid.


44- See, Stern and Other, Marketing Channels, 1996, P. 170.


48- See, Stern and Others, Marketing Channels, 1996, PP. 112-118.


50- Ibid., PP. 583-585.


54- Ibid., P. 244.

55- Ibid.

56- Ibid.


68- Ibid.

69- Ibid.