CHAPTER-9

FLOW OF MARKETING CHANNELS

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FLOW OF MARKETING CHANNEL

1. INTRODUCTION

Marketing channels were traditionally viewed as a bridge between producers and users. However, this traditional view fails to fully explain the intricate network of relationships that underlie marketing flows the exchanges of goods, services, and information. To illustrate, consider a prescription drug purchase. To get authorization to purchase the drug, one must visit a physician to obtain a prescription. Then, one might acquire the drug from one of several retail sources, including grocery store chains, mass discounters (such as Reliance Mart), neighborhood pharmacies, and even virtual pharmacies (such as Drugstore.com). Each of these prescription drug outlets is a marketing channel. Pharmaceutical manufacturers, distributors, and their suppliers are all equally important links in these channels of distribution for pharmaceuticals. Sophisticated computer systems track each pill, capsule, and tablet from its point-of-production at a pharmaceutical manufacturer all the way to its point-of-sale in retail outlets worldwide.

2. STAGES OF MARKETING CHANNELS

A distribution channel can have several stages depending on how many organisations are involved in it:

1. Producer \[\rightarrow\] Wholesaler \[\rightarrow\] Retailer \[\rightarrow\] Consumer

2. Producer \[\leftrightarrow\] Retailer \[\rightarrow\] Consumer

3. Producer \[\leftrightarrow\] Consumer

Looking at the diagram above:

Channel 1 contains two stages between producer and consumer - a wholesaler and a retailer. A wholesaler typically buys and stores large quantities of several producers' goods and then breaks into bulk deliveries to supply retailers with smaller quantities. For small retailers with limited order quantities, the use of wholesalers makes economic sense.

Channel 2 contains one intermediary. In consumer markets, this is typically a retailer. The consumer electrical goods market in the UK is typical of this arrangement whereby producers such as Sony, Panasonic, Canon etc. sell their goods directly to large retailers such as Comet, Tesco and Amazon which then sell onto the final consumers.
Channel 3 is called a "direct-marketing" channel, since it has no intermediary levels. In this case the manufacturer sells directly to customers. An example of a direct marketing channel would be a factory outlet store. Many holiday companies also market direct to consumers, bypassing a traditional retail intermediary - the travel agent.

What role do marketing channels play in achieving successful placement of products and services?

A marketing channel is a set of interdependent organizations involved in the process of placing products and services with consumers. The introduction of intermediaries between the manufacturers and the final consumer is adopted by many organizations to facilitate the distribution of their products, especially where a wide distribution will provide maximum exposure of their products. Manufacturers of snack foods, pies, cigarettes and many similar products require mass distribution in often small quantities. This distribution makes the demand management process by one company difficult to achieve cost effective distribution.

In businesses where many deliveries are made to retail outlets, the intermediaries can significantly reduce logistics costs, and distributors endeavor to act as middle-men for many manufacturers. This increases their profitability and can lead them to offering lower distribution costs.

One disadvantage in using marketing channels is that the manufacturer relinquishes a level of control over the products, as well as increasing their distance from the end consumer. The participants in the marketing channel provide a number of key functions which increase the effectiveness of placement through the channel.

The functions are:

➢ Information gathering and distribution
➢ Product promotion
➢ Arranging contacts and matching products to meet buyers needs
➢ Negotiation of prices and financing the costs of the activities in the channel
➢ Physical distribution of products through the channel.

A marketing channel is a set of practices or activities necessary to transfer the ownership of goods, and to move goods, from the point of production to the point of consumption and, as such, which consists of all the institutions and all the marketing activities in the marketing process. A marketing channel is a useful tool for management.

Roles of marketing channel in marketing strategies:

➢ Links producers to buyers.
➢ Performs sales, advertising and promotion.
➢ Influences the firm's pricing strategy.
➢ Affecting product strategy through branding, policies, willingness to stock.
➢ Customizes profits, install, maintain, offer credit, etc.

An example of this is an apple orchard: Apple orchard > Transport > Processing factory > Packaging > Final product to be sold > Apple pie eaten
An alternative term is distribution channel or 'route-to-market'. It is a 'path' or 'pipeline' through which goods and services flow in one direction (from vendor to the consumer), and the payments generated by them flow in the opposite direction (from consumer to the vendor). A marketing channel can be as short as being direct from the vendor to the consumer or may include several inter-connected (usually independent but mutually dependent) intermediaries such as wholesalers, distributors, agents, retailers. Each intermediary receives the item at one pricing point and moves it to the next higher pricing point until it reaches the final buyer.

**Marketing Channels can be long term or short term.**

Short term channels are influenced by market factors such as: business users, geographically concentrated, extensive technical knowledge and regular servicing required, and large orders. Short term product is influenced by factors such as: perishable, complex, and expensive. Short term producer factors include whether the manufacturer has adequate resources to perform channel functions, Broad product line, and channel control is important. Short Term competitive factors involve: manufacturing feels satisfied with marketing intermediaries' performance in promoting products.

Long term market factors include consumers, geographically dispersed, little technical knowledge and regular servicing is not required, and small orders. Product factors for long term marketing channels are: durable, standardized, and inexpensive. Producer factors are manufacturer lacks adequate resources to perform channel functions, limited product line, and channel control not important. The competitive factors are: manufacturer feels dissatisfied with marketing intermediaries' performance in promoting products.

### 2. CHANNEL ROLES IN DYNAMIC MARKET PLACE

No two biological forms can survive for long in the same finite ecosystem when they require the same resources. Each animal species has evolved to reach its current position in the world. Marketing channel members likewise have to adapt to attain or maintain their positions in increasingly competitive markets. In this process of adaptation, each channel member attempts to differentiate itself from any other member. This process describes the pursuit of a differential advantage. A differential advantage may be viewed as the marketplace’s perception of an organization’s distinctive characteristics that set it apart from competitors in ways enticing to customers. Like any living organism, each business entity must distinguish itself in some way to persist and/or prosper in a competitive marketplace.

Channels are not formed through an arbitrary process. Instead, an underlying structure shapes members’ behaviors. This structure makes it possible to explain and predict how channel members will perform in market settings. The basis for this structure is referred to as channel roles. Channel roles are sets of activities or behaviors assigned to each intermediary operating in a channel system. Over time, each channel member will attain a special role identity. Role identity specifies the characteristics of an individual or organization that are considered appropriate to and consistent with the performance of a given channel role. New channel role expectations encompass the exchange attributes and
benefits expected by customers. Role expectations capture the potential of alternative channel intermediaries to satisfy the consumption decision criteria.

All intermediaries play a negotiator function within marketing channels. The negotiator function can take different forms and extends beyond assembling, grading, and sorting products. Intermediaries may intercede in the distribution, merchandising, and/or service processes associated with marketing flows. Some intermediaries simply provide a means for transportation and logistics management, while others supply merchandising assistance to sellers. Still others offer a variety of intermediary services to the channels they serve, ranging from the warehousing of goods to the provision of consumer services.

It is clear that channel members play a variety of roles in the flows of goods and services from producer to ultimate user. These channel roles emanate from the nature of channel member interactions or relationships and can be categorized into supplier, customer, and lateral relationships. Supplier relationships include source firms, producers, and wholesalers. Each of these channel members sells goods for input into production processes or for resale. Wholesalers market products and services for resale or institutional use. Customer relationships are handled by another type of intermediary: retailers. Retailers sell products or services to the ultimate consumer. Lateral relationships occur between channel members at relatively equivalent positions in the channel system.

![Role of Channel Diagram]

**3.1 CHANNEL LEVELS**

A layer of intermediaries that performs some work in bringing the product and its ownership closer to the final buyer.

Channel levels consist of consumer marketing channels or the industrial marketing channels. A factor common among both channel levels is that both include the producer as well as the end customer. There are different levels of Channels of Distribution or Marketing channels / Trade Channels.

These are given as below -

<table>
<thead>
<tr>
<th>Level</th>
<th>Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zero Level</td>
<td>Producer — Consumer</td>
</tr>
<tr>
<td>One Level</td>
<td>Producer — Retailer — Consumer</td>
</tr>
<tr>
<td>Two Level</td>
<td>Producer — Wholesaler — Retailer — Consumer</td>
</tr>
<tr>
<td>Three Level</td>
<td>Producer — Distributor — Wholesaler — Retailer — Consumer</td>
</tr>
<tr>
<td>Four Level</td>
<td>Producer — Agent — Distributor — Wholesaler — Retailer — Consumer</td>
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</table>
The producer and the final consumer are part of every channel. Here we used the number of intermediary levels to designate the length of a channel.

There can be a number of different levels to each distribution channel.

**Zero Level channel / Direct Marketing Channel** – There is the zero level channel, which involves distribution with no intermediaries whatsoever. Consists of a manufacturer directly selling to the end consumer. This might mean door to door sales, direct mails or telemarketing. Dell online sales is a perfect example of a zero level channel marketing. For smaller markets, using a zero or one level scheme can be quite practical and effective. A zero-level channel consists of a manufacturer selling directly to the final customer. Examples- Door to Door sales, home parties, mail orders, telemarketing etc.

One Level channel – As the name suggests, the one level channel has an intermediary in between the producer and the consumer. An example of this can be insurance in which there is an insurance agent between the insurance company and the customer. A one level channel contains one selling intermediary, such as a retailer.

Two level Channel – A widely used marketing channel especially in the FMCG and the consumer durables industry which consists of a wholesaler and a retailer. A two level channel contains two intermediaries. In consumer markets, these are typically a wholesaler and a retailer.

Three level channel – Again observed in both the FMCG and the consumer durables industry, the three level channel can combine the roles of a distributor on top of a dealer and a retailer. The distributor stocks the most and spreads it to dealers who in turn give it to retailers. A three level of channel contains three intermediaries. In the meat packing industry wholesalers sell to jobbers, who sell to small retailers.

From the producer's point of view, obtaining information about end users and exercising control becomes more difficult as the number of channel level increases.

Four level channel- It is four level channel which involves four intermediaries between producer and consumer. It is a big channel used widely.

**Why should a producer not indulge in selling his product directly to the consumer? Once the product reaches the hands of the intermediaries he loses control over them, so why does he take this risk?**

The reason is that the intermediaries manage the distribution costs efficiently. They are experienced and have potential contacts which add to their productiveness. Their scale of operation is large as compared to the manufacturer alone which means the scale of sales reached would be higher. While there are various organizations which operate their own distribution channel or do not take any help from channel members, there are others who are in need of some level of channel partnership. For instance Dell computers do not need retail stores for selling their product as they customers can buy directly through the internet. But still some amount of channel partnership is needed with parcel post shippers like FedEx and UPS for product distribution. If Dell were to accomplish this part of distribution too all by itself then it would have exhausted all its company resources to build a large shipping service to satisfy its huge customer base. Thus Dell and its customers are taking advantage of benefits provided by its shippers.
EUREKA FORBES Takes the Zero-Channel Route

Eureka forbes was the first company in India to use direct to home sales force on a national scale for their vacuum cleaner. The reason for their use of this mode of value-delivery becomes clear when we understand the service demand output that their strategy entailed.

In the 1980s and early 1990s the vacuum cleaner was still not an accepted domestic appliance. The reasons for this were many. Some of them were:
Almost all middle-income households—the largest chunk of the target segment engaged maid servants who cleaned the floor everyday using broomsticks and mopped the floor. Therefore, cleaning was never a problem area for these households, even if both the members of the household were employed.
Vaccum cleaners could also be used for cubweb removal and removing dust and dust mites from carpets, mattresses and bed covers. The benefit of this function was that many allergies could be ridden off by vaccum cleaners with relative ease. This aspect was unknown to most households.

The vacuum cleaner was more than a mere replacement for the broomsticks and mopping cloth and this had to be communicated to potential buyers convincingly. While creating awareness-cognitive communication—about the unnoticed problem allergens through television advertising, affective communication warranted closer interaction with customers. This became a important source output demand that the distribution channel had to fulfill. The company chose direct selling as the channel route. Company salesman called a households to demonstrates to the multi utility aspects of vacuum cleaners and also reinforced the dangers of inhaling dust and dust mites during such calls.

3.2 Channel Flow

Distribution channel is defined by Hill: “Distribution channel – one or more companies or individuals who participate in the flow of goods and services from the manufacturer to the final user or consumer” (Hill, 2010, 93).
Nevertheless, other types of flows should not be neglected in distribution channels, so that the following definition is also possible: “Channel of distribution consist of one or more companies or individuals who participate in the flow of goods, services, information, and finances from the producer to the final user or consumer.”

These are various routes that products or services use after their production until they are purchased and used by end users. Therefore, marketing channels, i.e. distribution channels are all those organizations that a product has to go through between its production and consumption. In the consumer marketing channels, the marketing channel system usually includes the following operators/members: producer/manufacturer, wholesaler, intermediary, and retailer.
Members of channels of distribution typically buy, sell, and transfer title to goods. There are, however, many other flows between channel members in addition to physical possession and ownership of goods. These include promotion flows, negotiation flows, financing, assuming risk, ordering, and payment. In some cases the flow is in one direction, from the manufacturer to the consumer. Physical possession, ownership, and promotion flow in one direction through the channels of distribution from the manufacturer to the consumer. In other cases there is a two-way flow. Negotiations, financing, and the assumption of risk flow in both directions between the manufacturer and the consumer.
Ordering and payment are channel flows that go in one direction, from the consumer to the manufacturer. There are also a number of support functions that help channel members perform their distribution tasks. Transportation, storage, insurance, financing, and advertising are tasks that can be performed by facilitating agencies that may or may not be considered part of the marketing channel. From a channel management point of view, it may be more effective to consider only those institutions and agencies that are involved in the transfer of title as channel members. The other agencies involved in supporting tasks can then be described as an ancillary or support structure. The rationale for separating these two types of organizations is that they each require different types of management decisions and have different levels of involvement in channel membership.

Effective management of the channels of distribution involves forging better relationships among channel members. With respect to the task of distribution, all of the channel members are interdependent. Relationships between channel members can be influenced by how the channels are structured. Improved performance of the overall distribution system is achieved through managing such variables as channel structure and channel flows.

Direction of flow:
1. Forward movement of products from source to user.
2. Reverse-flow channels (through several intermediary es) are important in the following cases:
   a. To reuse products or containers
   b. To refurbish products for resale
   c. To recycle products

Figure 1: Marketing flows in distribution channels.

<table>
<thead>
<tr>
<th>FLOWS</th>
<th>DESCRIPTION</th>
<th>ACTIVITIES</th>
<th>COST'S EXAMPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical/Product’s flow</td>
<td>Refers to physical movement of products, starting from the manufacturer and finishing in the final user. The process may pass through middlemen and agents, which can own the property of the product that is being transported, handled or stored or just have its temporary possession.</td>
<td>The activities linked with Product’s flow are usually concerned to physical or logistical distribution. The main activities within this flow are: breaking bulks, convenience, time and variety. Physical and logistical distribution also plays an important role in the channels, as they can also be an important tool to add value to the chain. Demand forecast, order processing, storage management, packing &amp; transport can also be improved by a proper physical and logistical</td>
<td>Physical possession: storage, rental, delivering, repair and maintenance, movements and loading, picking, packing, expedition etc. Property: storage, maintenance, depreciation, financial and opportunity costs etc.</td>
</tr>
<tr>
<td>Promotion flow (Marketing information)</td>
<td>Promotion flow exist to increase the product’s awareness inform the characteristics and benefits of the product to potential buyers and to persuade those to buy. The activities related to this flow can also increase the brand value. What would increase future revenues? In these activities, any member of the channel can take part.</td>
<td>Promotion flow may contain different activities, such as personal sales by an employee or by an external sales team (brokers, consultants or representatives); media advertising; sales promotion (trade marketing action to intermediaries, commerce or retail); publicity and other public relation activities.</td>
<td>Sales personal (wages, commissions, travel expenses)’ advertising, sales promotion, publicity and public relations, Sales meeting, demonstrations and business fairs etc.</td>
</tr>
<tr>
<td>Negotiation flow</td>
<td>Negotiations within a distribution channel happen when sales’ conditions and the maintenance of relations should be discussed and decided.</td>
<td>Negotiation of price, remuneration, payment conditions, service levels, deadlines etc.</td>
<td>Costs of time, salaries, commissions, commercial deals, legal contracts, juridical consultants, concessions, discounts etc.</td>
</tr>
<tr>
<td>Information flow</td>
<td>Before setting a deal, an agreement, agents of a channel seek to know demand and supply conditions, prices, quantities, competition and marketing environment.</td>
<td>Information about prices demand, supply, competitors, environment, financial conditions, etc. Research and data.</td>
<td>Information systems, time, access to information centres and specialized institutions, market research, analysis and processing etc.</td>
</tr>
<tr>
<td>Financing flow</td>
<td>Financing involves uptake and allocation of capital, mainly to finance mobile inventories in different channel's levels. It can also help increasing revenues, as it may represent an advantage to the buyer.</td>
<td>Credit &amp; sales conditions, payment deadlines, credit services, external agents, interest rates, taxes etc. Financing costs can be shares/assumed by producers, middlemen, final customers or even by external agents such as banks, credit cards etc.</td>
<td></td>
</tr>
<tr>
<td>Risk flow</td>
<td>Involves all risks related to distribution activity. Usually, Producers &amp; Resellers assume/take the channel risks.</td>
<td>Credit risks, currency exchange, insurance changes, non quality costs, market risks etc. Risks of loosing image and reputation.</td>
<td></td>
</tr>
<tr>
<td>Order and Payment flow</td>
<td>Order and payment processing, data exchange and correlated activities.</td>
<td>Order: Receiving costs, emission, order's processing and sending, automation of sales team, sales assistants etc. Payments: costs with documents emissions and collections lawyers, information system etc.</td>
<td></td>
</tr>
<tr>
<td>Service flow</td>
<td>Services are considered additional/extra flow, due to their importance to strategies of differentiation, value addition, loyalty creation and client satisfaction.</td>
<td>1. Supply the mix of goods desired by clients; 2. Decrease to total cost of distribution, appeasing cost economy to sellers &amp; buyers. 3. Be a way of communicatio</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Development and perform of extra services, technical assistance, installations, maintenance, after sales, CRM, trainings, standardisation etc.</td>
<td></td>
</tr>
</tbody>
</table>
n between sellers & buyers.
4. Control the quality in the movement of change.
5. Perform services during and after sales.
6. Be responsible for the goods' movements.

Source: Adapted by authors from Lewis, Rosenbloom and Coughlan.

Stern et al. (1996) group these functions into flows of transactions performed in sequence by the channel members. These authors recognize that these flows can even become channels with very complex levels and a single function can be performed by more than one level of the marketing channel. Coughlan et al. (2002) and Kotler and Armstrong (1993) present a classification of independent flows that are performed by the channel members. In general, the models seek to describe the functions and flows of the channels as a whole, involving storage, promotion, service, negotiation, financing, risk, information, order, and payment. In this way, marketing flows are considered part of the distribution channel.
Marketing flows are performed by different members of a distribution channel and they vary according to the structure adopted, which depends directly on service levels. Table describes the marketing flows considered for this study, with the activities involved in each case and also with associated costs.

CHANNELS FLOW PARADIGM

All of these flows operate through the institutional structure of marketing which includes numerous intermediaries such as retailers, wholesalers, and many different types of agents and brokers. Viewed from the perspective of these eight flows, the task of channel management becomes essentially one of establishing, coordinating, and monitoring these flows which connect sellers and buyers together. While the concept of channel flows has become a well accepted paradigm in the marketing channels literature, what is often overlooked is how these flows come into existence in the first place. Obviously channel flows do not exist as a force of nature. Rather they must be created. In fact, channel flows are created by people working in all types of marketing institutions all over the world. In effect, channel flows are the ties that bind sellers and buyers and a myriad of intermediaries together to make global commerce possible (Rosenbloom and Larsen 2008).

What implication does the channel flows paradigm hold for modern global channel management? Actually it is a very straightforward and pragmatic one: global marketing requires more efficient and more coordinated channel flows. Fortunately the awesome technology provided by the Internet and worldwide web has made meeting this challenge much more feasible, particularly because with the exception of physical products, all eight channel flows can be implemented via the Internet. Managing the ownership, promotion, negotiation, financing, risk, ordering and payment flows mainly via the Internet is
commonplace today in both business-to-consumer (B2C) and business-to-business (B2B markets). Only the physical product flow cannot be digitized into electrons to move over the Internet at the speed of light. Instead, physical products must still be moved, handled and stored using conventional, ‘old fashioned’ devises such as airplanes, trucks, forklifts, conveyor belts, bricks and mortar warehouses and storage depots (Rosenbloom 2002). Consequently, channel managers seeking better and more coordinated global channel flows by harnessing the power of the Internet will need to pay special attention to the limitations of the Internet as well as its great potential. The demise of so many dot.com firms less than a decade ago can be traced in large part to ignoring the limitations of the Internet in the case of physical products.

The flow tables can be used for each channel participant to understand whether they perform the functions, whether they could perform the functions, and possible actions or improvements related to the function. Based on the work of Corey et al. (1989), Rosenbloom (1999), Wilson and Vlosky (1997) and Jackson and d’Amico (1989), the authors suggest a three-column table with column headings:
(1) function;
(2) actors; and
(3) alternative solutions.

Our suggestion is to build one table for each of the four flows:
(1) product and services;
(2) communication;
(3) information; and
(4) payments/financial.

The first two are flows in which the direction is from the company to final consumers, and the last two are the opposite. After this table is built, using the detailed functions as starting points for the rows, the actors (distributors) should be inserted and an analysis as to whether or not they perform that function should be made in column two (middle). The third column should be filled with possible changes, or alternative solutions. For instance, if a distributor does not do product transportation and it would be a better solution if he could perform this function, then it should be written at the column “alternative solutions”: “try to transfer to distributor the transport function”. And then this is already an action coming from the distribution plan. If the company has several distributors (wholesalers, retailers) it can add one column for each, or possibly, to produce one table for each company.

Product and services flow (from company to final consumers). Inventory management, product transportation, product modification and after sales service, customizing a product for the specific needs of clients/distributors, providing technical service, product maintenance and repair, procedure and handling of returned products, promote product availability, packaging, specific packaging requirements, evaluating new products and others.

Communication flow (from company to final consumers). Sales promotion to final consumers, information about product features, advertising, providing sales force,
packaging information, loyalty programs, Web site participation, traceability information and others.

**Information flow** (from consumer to company). Sharing knowledge of local market, scanning data (access to computer data), complaints via Web site/service line, order frequency, order formats consideration, arrange information about consumption and others.

**Payments and financial flows.** Conducting credit checks on final consumers, billing customers, caring for specific customer orders, arrange for credit provisions, price guarantees, financing and others.

This step provides a detailed overview of the chain and the distribution channels for a specific company.

### 3.3 SERVICE SECTOR CHANNELS

Although distribution in the services sector is difficult to visualize. The same skills, techniques and strategies used to manage inventory can also be used to manage service inventory- for instance, hospital beds, bank accounts or airline seats. The quality of the planning and execution of distribution can have a major impact on costs and customer satisfaction.

One thing that sets service distribution apart from traditional manufacturing distribution is that, in a service environment, production and consumption are simultaneous. In manufacturing, a production set can often be remedied by using safety stock or a faster mode of transportation. Such substation is not possible with a service. The benefits of a service are also relatively intangible- that is, a consumer normally can’t see the benefits of a service, such as a doctor’s physical exam, but normally can see the benefits provided by a product- for example, cold machine relieving a stuffy nose.

Because service industries are also customer oriented, customer services are a priority. To manage customer relationships, many service providers, such as insurance carriers, physicians, hair salons and financial services use technology to schedule appointments, manage accounts and disburse information.

Although it might appear that physical distribution of products or goods is more tedious, however the presence of a marketing channel is felt even in the case of the service sector. Thus services such as Banks, Hospitals and Education have their own service marketing channel to deliver value.

Hospitals need to be established in places where regular supply of medication is available, Fire stations must be able to give rapid access to geographical areas and at the time of elections, ballot boxes should be properly located to allow easy voting.

Services too therefore have multiple channel levels. To know about each level you can view my post on Channel levels – Consumer and industrial marketing channels. The same marketing channel system applies to services as well as products.

However a new concept being especially used in the services sector is the **Information highway channels.** Simply said these information highways combine multiple forms of data carrying capacity (Internet = Videos + Software + Audio + Images whereas Phone = Voice)

Thus service sector channels and their establishment for a service based organization also presents its own challenges.
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 following.

1. Converting potential buyers into profitable orders is one of the chief roles of marketing channels.
2. Marketing channels must not just serve markets, they must also make markets.
3. The company's pricing depends on whether it uses mass-merchandisers or high-quality boutiques.
4. The firm's sales force and advertising decisions depend on how much training and motivation dealers need.
5. Channel decisions involve relatively long-term commitments to other firms as well as a set of policies and procedures.
6. Push versus pull marketing.
   Push strategy: manufacturer induces intermediaries to carry, promote, and sell the product to end user. Push strategy is appropriate where there is low brand loyalty in a category, brand choice is made in the stores, the product is an impulse item, and product benefits are well understood.
   Pull strategy: manufacturer using induces consumers to ask intermediaries for the product. Pull strategy is appropriate when there is high brand loyalty and high involvement in the category, when people perceive differences between brands, and when people choose the brand before they go to the store.
7. 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.
8. 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.
9. 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.
10. 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.
11. Channel also helps 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.
12. Channel also promotes 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.
13. Members of the distribution channel are specialists in what they do and can often perform tasks better and at lower cost than companies who do not have distribution experience. Marketers attempting to handle too many aspects of distribution may end up exhausting company resources as they learn how to distribute
14. Not only are channel members able to reduce distribution costs by being experienced at what they do, they often perform their job more rapidly resulting in faster product delivery.
15. Marketers have to understand what customers want in their shopping experience. Resellers within the channel of distribution serve two very important needs: 1) they give customers the products they want by purchasing from many suppliers (termed accumulating and assortment services), and 2) they make it convenient to purchase by making products available in single location.

16. The distribution function is frequently incorporates functions such as sorting, inventory holding, allocation, breaking bulk, and building up assortments (Alderson 1965, Peterson et al., 1997). The existence of intermediaries in the distribution channel is supported primarily by the rationale of efficiency.

17. Many producers lack the financial resources to carry out direct marketing. For example, Maruti Udyog sells and services its cars through more than 1800 dealer outlets in India. It would be very difficult for Maruti to finance this scale of distribution network on its own.

18. In some cases direct marketing simply is not feasible. ITC would not find it practical to establish cigarette shops throughout India or to sell cigarette by mail order. It would have to sell cigarettes along with many other small products and would end up in the Paan shop and grocery stores.

19. Producers who do establish their own channels can often earn a greater return by increasing their investment in their main business. If a company earns a 20 percent rate of return on manufacturing and only a 10 percent return on retailing, it does not make sense to undertake its own retailing.

**Distribution channels may not be restricted to physical products alone**

Distribution channels may not be restricted to physical products alone. They may be just as important for moving a service from producer to consumer in certain sectors, since both direct and indirect channels may be used. Hotels, for example, may sell their services (typically rooms) directly or through travel agents, tour operators, airlines, tourist boards, centralized reservation systems, etc.

There have also been some innovations in the distribution of services. For example, there has been an increase in franchising and in rental services - the latter offering anything from televisions through tools. There has also been some evidence of service integration, with services linking together, particularly in the travel and tourism sectors. Links now exist between airlines, hotels and car rental services.

In addition, there has been a significant increase in retail outlets for the service sector. Outlets such as estate agencies and building society offices are crowding out traditional grocers from major shopping areas. There is a difference between selling directly and selling through intermediaries. Selling directly you interact directly with the customer. Selling through intermediaries, you interact with the intermediary enterprises buyers who are their for their enterprise's interest on behalf of the end user, it is paramount to understand the difference between industrial/institutional buyers and buying for trade or retail. Most of these people are well trained employees with expertise in their chosen categories. They are aware of the best sellers the market as a whole.
3.4 ROLE OF DISTRIBUTION CHANNELS IN FMCG

What are Fast Moving Consumer Goods (FMCG)?

Products which have a quick turnover, and relatively low cost are known as Fast Moving Consumer Goods (FMCG). FMCG products are those that get replaced within a year. Examples of FMCG generally include a wide range of frequently purchased consumer products such as toiletries, soap, cosmetics, tooth cleaning products, shaving products and detergents, as well as other non-durables such as glassware, bulbs, batteries, paper products, and plastic goods. FMCG may also include pharmaceuticals, consumer electronics, packaged food products, soft drinks, tissue paper, and chocolate bars.

A subset of FMCGs are Fast Moving Consumer Electronics which include innovative electronic products such as mobile phones, MP3 players, digital cameras, GPS Systems and Laptops. These are replaced more frequently than other electronic products. White goods in FMCG refer to household electronic items such as Refrigerators, T.Vs, Music Systems, etc. In 2005, the Rs. 48,000-crore FMCG segment was one of the fast growing industries in India. According to the AC Nielsen India study, the industry grew 5.3% in value between 2004 and 2005.

Consumer Demographics & Buying Patterns of Indian Consumers

FMCG is one sector which caters to the daily and more basic needs of consumers and therefore don’t have a chance to run out of focus. From oral care products to packed food to detergents, soaps, mosquito coils, etc, are the various categories of products that FMCG market makes available to lakhs of consumers across the country. Initially, Indian buyers were a bit conservative partly due to lesser disposable income and partly due to fewer competitive and more variety of products. But since almost a decade, brands like Pepsodent, Pepsi, Coke, Mortein, various ITC brands, Dabur products, P & G products, etc, have made a stern attempts in providing higher quality products with relatively competitive prices, making Indian consumer enjoy brands which deliver high quality and adhere to global standards. The plethora of such brands was thrown open to Indian consumers during 1990s which witnessed arise and growth in the FMCG industry. But from 2000 onwards a there has been a negative growth of this industry. The reasons are manifold; firstly, yesteryears’ amenities started becoming necessities like, mobile phones, cars, branded clothes, accessories, etc.

Secondly, the disposable income of average Indian consumer rose sharply within the past 5 year and finally, availability of various financial aides made every reasonable and expensive purchase, easy thereby giving the Indian consumers an unlimited exposure to experience the same. But since December’04, the sales of various brands belonging to key players and the overall FMCG industry performance have picked up and the intense sales promotional efforts, cut throat competitive strategies, stronger distributional efforts have helped various brands penetrate deeper into the market and increased sales. Today, rural Indian consumers market has by far become the highest revenue generator for many of the FMCG product companies and availability of a wide variety of range has allowed today’s Indian
consumer to analyze and judge each product accurately and make an ideal purchase decision.

EXAMPLES OF FMCG COMPANIES:

- Agro Tech Foods Lmt.
- Bajaj Hindustan Ltd.
- Britannia Industries Ltd.
- Colgate-Palmolive (India) Ltd.
- Dabur India Ltd.
- Godrej Consumer Products Ltd.
- IB InfoTech Enterprises Ltd. etc.

Match Distribution channels to the Product and Service (From the perspective of a producer)

It's fairly easy to change periodically some of your marketing tactics and strategies. For example, you can generally change your pricing, packaging and product mix with a minimum of difficulty. The decision on how you choose to distribute your product or service, however, is much more difficult to change once made. And distribution affects the selection and use of all your other marketing tools.

There is a wide variety of possible distribution channels, including:

Retail outlets owned by your company or by an independent merchant or chain;
Wholesale outlets of your own or those of independent distributors or brokers;
Sales force compensated by salary, commission or both;
Direct mail via your own catalog or flyers;
Telemarketing on your own or through a contract firm;
Cyber marketing, surfing the newest frontier;
Broadcast and cable TV direct marketing and home shopping channels.

Distribution choices for a service business follow the same lines as those for a physical product. For example, financial planning services may be offered through printed material such as books or newsletters; sold at retail by consultants; delivered electronically by computer; or relayed by phone, fax or mail.

To select the optimum distribution options, you must:

- Identify how your direct competitors’ products are sold.
- Examine the costs of your channel and sales force options.
- Determine which distribution options best match your overall marketing strategy.
Competitors' distribution channels

As a starting point, make a list of any competitors that could compete directly with you for the same customers. Then divide these competitors into categories based on the distribution channels they currently use. The result will be a picture of which channels are being successfully used in your type of business and location.

To illustrate, let's use the example of a local one-man architect business, Life Designs, which provides residential home design and competes indirectly with all architectural design firms and home building suppliers.

These include large firms that do both industrial and residential designs and suppliers of home-building kits (e.g., log houses and A-frames). However, Life Designs' direct competition is a small group of similar firms that specialize only in local area home designs and remodeling. A list of competitors broken down by the different local distribution channels they use includes:

- Competitors who advertise in local city and county magazines, newspapers and real-estate flyers;
- Subdivided by home-design-only firms and home-design and industrial-design firms;
- Competitors who work with contractors and developers in the local county;
- The local university's architectural design department.