CHAPTER 1

INTRODUCTION

• MEANING OF CHANNEL

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• WHOLESALING

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INTRODUCTION

1. MEANING OF CHANNEL

1.1 INTRODUCTION
Distribution channels are the methods that companies use to enter the consumer market with their product. ‘COMPANIES TODAY MUST BUILD AND MANAGE A CONTINUOUSLY EVOLVING DISTRIBUTIONCHANNELS. IN THIS RESEARCH, WE CONSIDER STRATEGIC AND TACTICAL ISSUES WITH MARKETING CHANNELS OF DISTRIBUTION. WE WILL EXAMINE MARKETING CHANNEL ISSUES FROM THE PERSPECTIVE OF CONSUMERES.’

The word channel might bring to mind a waterway such as the English Channel, where ships move people and cargo. Or it might bring to mind a passageway such as the Chunnel, the railroad tunnel under the English Channel. Either image implies the presence of paths or tracks through which goods, services, or ideas flow. This imagery offers a good starting point for understanding channels of distribution.

The term marketing channel was first used to describe trade channels that connected producers of goods with users of goods. Any movement of products or services requires an exchange. Whenever something tangible (such as a computer) or intangible (such as data) is transferred between individuals or organizations, an exchange has occurred. Therefore, marketing channels make exchanges possible. How do they facilitate exchanges? Perhaps the key part of any distribution channel is the intermediary. Channel intermediaries or middlemen are individuals or organizations who create value or utility in exchange relationships. Intermediaries generate form, place, time, and/or ownership values between producers and users of goods or services.

1.2 CONCEPT OF MARKETING DISTRIBUTION CHANNEL
“DISTRIBUTION CHANNELS ARE THE BRIDGeways TO OUR MARKETS, WITHOUT THEM WE WILL REMAIN AS ISOLATED AS AN ISLAND.”

As we know, the primary objective of all business enterprises is to earn profit by selling goods and services to ultimate consumers or users. In order to bring goods from the place of manufacturer to the place of consumers, the goods have to follow a path or route which is known as channel of distribution or trade channel. A trade of marketing channel consists of producer, middleman and consumers or users. The channel serves as a link between the producers and consumers. Here we shall discuss the various aspects of channels of distribution.

A channel of distribution or trade channel is the 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). In other words, it is the distribution network through which a producers puts his product in the hands of actual users. A Distribution channel can be as short as being direct from the vendor to the consumer or may include several interconnected (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. Facilitating agencies which perform or assist in marketing function are not included as middlemen in the channel of distribution. This is because they neither acquire title to the goods nor negotiate purchase or sale.

In other words, most producers do not sell their good directly to the final users, between them stands a set of intermediaries performing a variety of functions. These intermediaries constitute a distribution channel. Formally, Distribution channels are sets of interdependent organizations involved in the process of making a product service available for use or consumption. They are the set of pathways a product or service follows after production, culminating in purchase and use by the final end user. Distribution channels represent a substantial opportunity cost. It converts potential buyers into profitable orders. Distribution channels must not just serve markets, they must also make markets.

Similarly, you know that the main purpose of trade is to supply goods to the consumers living in far off places. As goods and services move from producer to consumer they may have to pass through various individuals. Let us take an example. A farmer in Srinagar has an apple orchard. Once the apples are ripened he sells the apples to an agent of Delhi. The agent collects the apples from Srinagar, packs them, and sells them to a wholesaler at New Delhi sabzimandi. The wholesaler then distributes them to various retail fruit vendors throughout Delhi by selling smaller quantities. Finally, we purchase apples from those vendors as per our requirement. Thus, we find that while coming from the producer at Srinagar, the product reaches the consumers by passing through several hands like an agent, a wholesaler and a retailer. All these three are called middlemen.

These middlemen are connecting links between producers of goods, on one side and consumers, on the other. They perform several functions such as buying, selling, storage, etc. These middlemen constitute the channels of distribution of goods. Thus, a channel of distribution is the route or path along which goods move from producers to ultimate consumers.

**FIGURE:**

![Distribution Channel Diagram](image)

Distribution channel, also known as marketing channel, is the flow channel of products from the producer to the consumer. It consists of the producer, the consumer, and various intermediaries between them. The function of distribution channel is to eliminate asymmetry of information between the producers and consumers so that transactions can be realized. The study of distribution channel concentrates on selection and management of distribution channels, which is the basic research area of marketing theory.

**1.3 DEFINITIONS OF MARKETING DISTRIBUTION CHANNEL**
Channel Distribution is defined as an organized network of agencies and institutions which in combination perform all the functions required to link producers with end customers to accomplish the marketing task.

You know that the main purpose of trade is to supply goods to the consumers living in far-off places. As goods and services move from producer to consumer, they may have to pass through various individuals.

Channel distribution also means used to transfer merchandise from the manufacturer to the end user. An intermediary in the channel is called middleman. Middlemen in the channel of distribution are used to facilitate the delivery of the merchandise as well as to transfer title, payments, and information about the merchandise. For example, a manufacturer may rely upon the workforce employed by a distributor to sell the product, make deliveries, and collect payments. The channel used by a marketer are an integral part of the marketing plan and play a role in all strategic marketing decisions.

"the route by which a product or service is moved from a producer or supplier to customers. A Distribution channel usually consists of a chain of intermediaries including wholesalers, retailers and distributors, that is designed to transport goods from the point of production to the point of consumption in the most efficient way."

**Business Definition**

The American Marketing Association defines:

"An Organized network of agencies and institutions which in combination perform all the activities required to link producers with users to accomplish the marketing task."

According to the McCarthy — "Any supreme of institutions from the producer to the consumer, including one or any number of middle-men, is called channel of distribution."

W. J. Stantom — "A channel of distribution (sometimes called a trade channel) for a product is the route taken by the title to the goods as they move from the producer to the ultimate consumer or industrial user."

Philip Kotler — "Every producer seeks to link together the set of marketing intermediaries that best fulfill the firm's objectives — This set of marketing intermediaries is called the marketing channel (also called trade channel, channels of distribution)."

The Greek philosopher HERACLITUS wrote, "Nothing endures but change." Marketing channels are enduring but flexible systems. They have been compared to ecological systems. Thinking about distribution channels in this manner points out the unique, ecological-like connections that exist among the participants within any marketing channel. All marketing channels are connected systems of individuals and organizations that are sufficiently agile to adapt to changing marketplaces.

This concept of a connected system suggests that channel exchange relationships are developed to build lasting bridges between buyers and sellers. Each party then can create value for itself through the exchange process it shares with its fellow channel member. So, a channel of distribution involves an arrangement of exchange relationships that create value for buyers and sellers through the acquisition (procurement), consumption (usage), or elimination (disposal) of goods and services.
According to LOUIS RIPLEY—"Distribution channel is a set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user."

According to BUCKLIN-THEORY OF DISTRIBUTION CHANNEL STRUCTURE (1966)
A Channel of distribution comprises a set of institutions which perform all of the activities utilized to move a product and its title from production to consumption. (Below Figure)

Today's System of Exchange:

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PROMOTION
CONTACT
NEGOTIATION
TRANSPORTING & STORING
FINANCING
PACKAGING
MONEY
GOODS
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The sale of a large amount of stock by a single entity over a period of time rather than all at once to avoid adversely affecting its market price opposite of accumulation.

According to DAVE CHAFFEY: "The mechanism by which products are directed to customers either through intermediaries or direct."

PP16-BB DEFINITION OF MARKETING CHANNEL:
"A marketing channel consists of individuals and firms involved in the process of making a product or service available for use or consumption by consumers or industrial users."

Encyclopedia of Business, 2nd ed. De-flle Distribution channel:
A supply channel is composed of three structures. At one end of channel is the manufacturer. The terminal point in the channel is the retailer who sells goods and services directly to the consumer. In between the two lies a process called distribution, which is more difficult to define. One involved in the distribution process is labeled a "distributor." The APICS Dictionary describes a distributor as "a business that does not manufacture its own products but purchases and resells these products. Such a business usually maintains a finished goods inventory." According to this definition, most companies that are involved with the disbursements of raw materials and finished products belong, in one sense or another, to the distribution industry. By adopting this definition, distribution is expanded to cover nearly every form of materials management and physical distribution activity performed by channel constituents, except for the processes of manufacturing and retailing.

ENCYCLOPEDIA OF BUSINESS & FINANCE:

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 (such as Spencer's), mass discounters (such as Big Bazaar), neighborhoods pharmacies, and even virtual pharmacies (such as Aventis). 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.

To appreciate the complexity of marketing channels, exchange should be recognized as a dynamic process. Exchange relationships themselves continually evolve as new markets and technologies redefine the global marketplace. Whether these exchange processes occur between manufacturers and their suppliers, retailers and consumers, or in some other buyer-seller relationship, marketing channels offer an important way to build competitive advantages in today's global marketplace. This is so for two major reasons:

New technologies are creating real-time (parallel) information exchange and reducing cycle times and inventories. Take as an example Dell Computer, which produces on-command, customized computers to satisfy individual customer preferences. At the same time, Dell is able to align its need for material inputs (such as chips) with customer demand for its computers. Dell uses just-in-time production capabilities. Internet-based organizations now compete vigorously with traditional suppliers, manufacturers, wholesalers, and retailers. Bricks-and-mortars (organizations having a physical location) and clicks-and-mortars (organizations having a virtual presence) are in a virtual face-off.

A marketing channel has been defined as, a system of relationships existing among businesses that participate in the process of buying and selling products and services (Bowersox and Cooper, 1992, cited in Palmer, 2000).
Lamb et al. (2008:262) define marketing channel as, "a large pipeline through which products, their ownership, communication, financing and payment and accompanying risks flow to the consumer". According to Lamb et al. (2008), a marketing channel, also called a channel of distribution, is a business structure of independent but interdependent firms which enable products to reach the final consumers.

According to Palmer (2000), people and organizations involved in the process of transferring title of a product from the producer to the consumer are referred to as intermediaries.

After these references we can say that Channels exist to link and serve consumers. It's purpose is similar to brands to build superior customer value very efficiently for above average profits. Channels vary in complexity and efficiency, e.g. The channel for electricity is simple and almost ideal-Producer has mass distribution and the consumer has instant availability-flick of the switch, literally.

Channels reach backwards to raw materials and forwards to consumers. Companies have a choice to hand each stage themselves or outsource it. Channels are necessary because mostly the producer of a product is usually a long distance from a consumer and because skills differ through channel type. E.g. sports shoe brand may be produced in the far east but deliver to wholesalers and retailers for sales to consumers in the west.

Channels can also help brands differentiate e.g. Dell online, mass market brands like coca-cola need maximum availability compared to restricted or selective channels for luxury brands like channel Armani.

The super power of retailers (and their own brands) has also increased competition for brands and influences consumers because of mainly availability, pricing, selection, location and service.

Consequently, strong brands (Nike, Microsoft, Apple etc.) tend to have above industry margins compared to weaker ones even though they have to market through strong and ever increasing channels.

CHANNELS OF DISTRIBUTION enhance communication flows and the flow of money and title to goods. The latest trend is to try to eliminate wholesalers and the need for retail stores by selling over the Internet.

The characteristics of consumers are an important influence on channel design. Their number geographic distribution income, shopping habits and reactions to different selling methods all vary from country to country and therefore require different channel approaches. In general regardless of the stage of market development, the need for market channel middlemen increases as the number of consumer increases. The converse is also true, the need for channel middlemen decreases as the number of consumers decreases. For Example: If there only two consumers for an industrial product in each national market, these two consumers must be directly contacted by either the manufacturer or an agent. For mass market products bought by millions of consumers, retail distribution outlets or mail order distribution is required. In a country with a large number of low value retailers, it is usually cheaper to reach them via wholesalers. Direct selling that bypasses wholesale intermediaries may be the most cost effective means of serving large volume retailers. There are certain circumstances when direct marketing maybe more useful e.g., when
absolute margins are very large (e.g. computer) or when a large inventory may be needed (e.g. computer CDs) or when the customer base is widely dispersed (e.g. bee keepers).

In the uncertain fluctuating market of today, it is essential for a company to hold on and face those uncertainties in order to survive. Consumers can be an aid for a company's survival, thereby it is essential for consumers to get the goods of a company whenever and however they need them. "Channels of distribution are the different paths that goods passed through in moving from the producer to the consumer". With the help of distribution channels, companies are able to overcome the time, place and possession gaps that separate goods and services from the consumers.

Channels of Distribution is also known as “Place" in the “4 P's" model of Marketing. Distribution Channels provide the utility of place, of having products where the customer wants them. In these days of customer focus and emphasis on completion, the 4P's model is considered very simplistic, and I've always thought that was probably why Marketers began referring to Place as channels, to move us away from “The"4P's" as a description of all of what Marketing is about, nevertheless," place" is a convenient way to the term Channels of Distribution.

Marketing channels perform these tasks which make more convenient purchasing for consumers:

- Many producers lack the financial resources to carry out direct marketing.
- Help producers increasing investment in their main business.
- In some cases, direct marketing simply is not feasible.
- Making goods widely available and accessible to target markets.
- Intermediaries contacts, experiences, specialization, and scale of operations, usually offer the firm more than it can achieve on its own.
- Moving the goods efficiently(e.g. large quantities are moved from factories or warehouses to retail stores);
- Breaking bulk(manufacturers sell to a modest number of wholesalers in large quantities-quantities are then gradually broken down as they make their way toward the consumer);
- Consolidating goods (retail stores carry a wide assortment of goods from different manufacturer e.g. supermarkets span from toilet paper to catsup); and adding services e.g. Demonstrations and Repairs.

1.4 THE NATURE OF MARKETING CHANNEL

Most businesses use third parties or intermediaries to bring their products to market. They try to forge a "distribution channel" which can be defined as "All the organisations through which a product must pass between its point of production and consumption"

Why does a business give the job of selling its products to intermediaries? After all, using intermediaries' means giving up some control over how products are sold and who they are sold to.
The answer lies in efficiency of distribution costs. Intermediaries are specialists in selling. They have the contacts, experience and scale of operation which means that greater sales can be achieved than if the producing business tried run a sales operation itself.

An entrepreneur has a number of alternative channels available to him for distributing his products. These channels vary in the number and types of middlemen involved. Some channels are short and directly link producers with customers. Whereas other channels are long and indirectly link the two through one or more middlemen.

**Thus, we can describe distribution channels as:**

Distribution channel is the dealer who will be the point of contact to sell your products. They buy the goods from your company at a dealer's rate and sell to end customers at the retail price rate. The price you sell to dealers is up to how much margin you want to make for your account servicing.

Example—If you are a farmer and you want to sell 5,000 tomatoes in a day, you may find having wider distribution channels at many places to be helpful for you achieve that. These distribution channels must be having a similar concept of range of products for what their business is about. You can't be asking a shop that sells clothes to sell tomatoes—it doesn't make any sense.

When a customer is considering buying a product he tries to access its value by looking at various factors which surround it. Factors like its delivery, availability etc which are directly influenced by channel members. Similarly, a marketer too while choosing his distribution members must access what value is this member adding to the product. He must compare the benefits received to the amount paid for using the services of this intermediary. These benefits can be the following:

**Cost Saving**
The members of distribution channel are specialized in what they do and perform at much lower costs than companies trying to run the entire distribution channel all by itself.

**Time Saving**
Along with costs, time of delivery is also reduced due to efficiency and experience of the channel members. For example if a grocery store were to receive direct delivery of goods from every manufacturer the result would have been a chaos. Everyday hundreds of trucks would line up outside the store to deliver products. The store may not have enough space for storing all their products and this would add to the chaos. If a grocery wholesaler is included in the distribution chain then the problem is almost solved. This wholesaler will have a warehouse where he can store bulk shipments. The grocery store now receives deliveries from the wholesaler in amounts required and at a suitable time and often in a single truck. In this way cost as well as time is saved.

**Customer Convenience**
Including members in the distribution chain provides customer with a lot of convenience in their shopping. If every manufacturer owned its own grocery store then customers would have to visit multiple grocery stores to complete their shopping list. This would be extremely time-consuming as well as taxing for the customer. Thus channel distribution provides accumulating and assorting services, which means they purchase from many suppliers the
various goods that a customer may demand. Secondly, channel distribution is time saving as
the customers can find all that they need in one retail store and the retailer.

Customers can buy in small quantities
Retailers buy in bulk quantities from the manufacturer or wholesaler. This is more cost
effective than buying in small quantities. However they resell in smaller quantities to their
customers. This phenomenon of breaking bulk quantities and selling them in smaller
quantities is known as bulk breaking. The customers therefore have the benefit of buying in
smaller quantities and they also get a share of the profit the retailer makes when he buys in
bulk from the supplier.

1.5 TYPES OF CHANNEL

Ideally, marketing should result in a customer who is ready to buy and all that is needed is
to make the product or service available. Products made by business organizations like
cooperatives may pass through a number of hands or intermediaries. Each stage of
intermediaries has its own costs and value added to the product. According to Palmer
(2000), value adding can be done by adding further components, changing the form of a
product, or adding ancillary services to the product offer. Porter (1985) argues that value
can be added at any stage during the movement of goods from suppliers (of raw materials
or components), through the manufacturing organization and on to the end customer.
Managers can choose from among three generic marketing channels (Doyle, 1998).
According to Doyle (1998), the three generic marketing channels are direct marketing, use
of independent sales force team and use of channel intermediaries. Lamb et al. (2008)
identify four generic marketing channel structures similar to those suggested by Doyle
(1998). The four channels are: direct channel, retailer channel, wholesale channel and
agent/broker channel.
The definition of a distribution channel is a method that a company uses as a way of getting
their products into the marketplace so that they can be purchased and used by consumers.
The most traditional channel goes from the supplier to the manufacturer, to the distributer,
the wholesaler and then finally to the retailer. This method has changed due to
advancements in technology and the Internet to form the two main distribution channels
that exist today: Direct and indirect.

Normally goods and services pass through several hands before they come to the hands of
the consumer for use. But in some cases producers sell goods and services directly to the
consumers without involving any middlemen in between them, which can be called as direct
channel. So there are two types of channels, one direct channel and the other, indirect
channel.

Indirect Channel

If the producer is producing goods on a large scale, it may not be possible for him to sell
goods directly to consumers. As such, he sells goods through middlemen. These middlemen
may be wholesalers or retailers. A wholesaler is a person who buys goods in large quantities
from producers; where as a retailer is one who buys goods from wholesalers and producers
and sells to ultimate consumers as per their requirement. The involvement of various
middlemen in the process of distribution constitutes the indirect channel of distribution. Let us look into some of the important indirect channels of distribution.

**PRODUCER—> WHOLESALE—> RETAILER —> CONSUMER**

This is the common channel for the distribution of goods to ultimate consumers. Selling goods through wholesaler may be suitable in case of food grains, spices, utensils, etc. and mostly of items, which are smaller in size.

**PRODUCER—> RETAILER —> CONSUMER**

Under this channel, the producers sell to one or more retailers who in turn sell to the ultimate consumers. This channel is used under the following conditions —

(i) When the goods cater to a local market, for example, breads, biscuits, patties, etc.
(ii) When the retailers are big and buy in bulk but sell in smaller units, directly to the consumers.

Departmental stores and super bazaars are examples of this channel.

The indirect channel is used by companies who do not sell their goods directly to consumers. Suppliers and manufacturers typically use indirect channels because they exist early in the supply chain. Depending on the industry and product, direct distribution channels have become more prevalent because of the Internet.

**Direct Channel**

A direct distribution channel is used when a company sells its products directly to the consumers. Although this method was not popular, it has experienced a significant increase due to the Internet. Companies out there who need to cut costs will often use a direct distribution channel in order to 'cut out the middle man'.

In this channel, producers sell their goods and services directly to the consumers. There is no middleman present between the producers and consumers. The producers may sell directly to consumers through door-to-door salesmen and through their own retail stores. For example, Bata India Ltd, HPCL, Liberty Shoes Limited has their own retail shops to sell their products to consumers. For certain service organizations consumers avail the service directly. Banks, consultancy firms, telephone companies, passenger and freight transport services, etc. are examples of direct channel of distribution of service.

**Indirect Channel Methods**

An indirect method of distribution is used by companies who do not sell their products directly to consumers. The initial suppliers and manufacturers favor this method because of their early existence in the supply chains. Depending on the industry and product type, direct channels of distribution have appeared to become more widespread due to the rise of the Internet.

Examples of the most common indirect channels include distributors, wholesalers and retailers. Companies choose these methods in order to gain the best possible market share for their product. It also allows companies to focus purely on producing the goods and products whilst others take care of the other factors.
Direct Channel Methods

Methods of direct distribution include selling agents and Internet sales which are the two most commonly used methods. The Internet is a very easy distribution channel because of the fact that it is so easy for people to access it. Selling agents work for the company in question and market the company's products directly to customers.

In short we can explain it, Distribution channels are used by companies to enter the consumer market with their product and there are two main types of distribution channels: indirect channel and direct channel.

FACTORS DETERMINE THE TYPES OF CHANNELS

A wide variety of factors need to be considered when deciding on the most appropriate distribution channel for a product. These are summarized below:

**Nature of the product**
- Technical/complex? Complex products are often sold by specialist distributors or agents
- Customized? A direct distribution approach often works best for a product that the end consumer wants providing to a distinct specification

**Type of product** – e.g. convenience, shopping, specialty
Desired image for the product – if intermediaries are to be used, then it is essential that those chosen are suitable and relevant for the product.

**The market**
- Are there traditional channels set for the market in which it is essential to participate?
- Are customers geographically spread?
- Does it involve selling overseas?
- The extent and nature of the competition – which distribution channels and intermediaries do competitors use?
- Profit margin on the product? Is there sufficient profit margin to provide adequate returns for each intermediary?

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

**Legal issues**
- Are there limitations on sale?
- What are the risks if an intermediary sells the product to an inappropriate customer?
- Who retains legal title to the product as it passes through distribution?

DIFFERENT BETWEEN DIRECT AND INDIRECT CHANNEL OF DISTRIBUTION

Getting products to the marketplace for a business is very important, and there are two types of distribution channels that exist for this to happen. An indirect channel is when companies and businesses do not sell their products directly to the customers and consumers. These products could go to other companies who need the resources, and
therefore this channel of distribution is mostly common when the business is early in the production line for a certain product. Alternatively there is the use of direct channels. Here, products and goods are sold directly to the customers and this cuts the costs of involving other companies and agencies. Both direct and indirect channels of distribution have been made easier with the ascension of the Internet.

For both methods of distribution, online services have made life a lot easier. Digital systems allow companies to sell directly to the consumer via websites and individual orders, while for indirect distribution; the Internet has allowed the transaction of placing large orders easier between companies and manufacturers. With the help of technology, direct and indirect channels of distribution has become quicker and easier. Whichever way you chose to sell your products, you can be sure that it will be done successfully. It is also your company’s prerogative as to whether you sell directly to the consumer, to other companies, or even both. Make sure that you are aware of which way is going to make the most out of your product and provide you with the largest profit.

1.6 CONSUMER CHANNEL

The simplest and shortest distribution channel is a direct channel. A direct channel carries goods directly from a producer to the business purchaser or consumer. One of the newest means of selling in a direct channel is the Internet. A direct channel may allow the producer to serve its customers better and at a lower price than is possible using a retailer. Sometimes a direct channel is the only way to sell the product because using channel intermediaries may increase the price above what consumers are willing to pay. Another reason to use a direct channel is control.

Many producers, however, choose to use indirect channels to reach consumers. Customers are familiar with certain retailers or other intermediaries and habitually turn to them when looking for what they need. Intermediaries also help producers fulfill the channel functions previously cited. By creating utility and transaction efficiencies, channel members make producers’ lives easier and enhance their ability to reach customers.

The producer-retailer-consumer channel is the shortest indirect channel. GE uses this channel when it sells small appliances through large retailers such as Wal-Mart or Sears. The producer-wholesaler-retailer-consumer channel is another common distribution channel in consumer marketing.

ADJUSTING DIFFERENCES BETWEEN PRODUCERS AND CONSUMERS

There are many differences in what producers develop and what consumers need. Channels of distribution allow for adjustments to be made in those differences so that the available products match the customers’ needs. Consumers want to be able to buy a variety of products from many different companies; there are many exceptions to that pattern. Some manufacturers use direct marketing methods such as catalogs, telephone sales and factory outlets to directly reach final consumers. Increasingly, the internet allows more direct marketing for consumer products, although many businesses still use indirect channels and include sales, distribution and customer service specialists as a part of their internet marketing efforts. Also, manufacturers that sell to businesses across large geographic areas
and in other countries often rely on other businesses to help them with selling, distribution, financing and other marketing functions.

Direct channels of distribution are most often selected when:
- There are a small number of customers.
- Customers are located in a limited geographic area.
- The product is complex, is developing to meet specific customer needs or requires a great deal of service.
- The business wants to maintain close control over the marketing mix.

If the opposite market characteristics exist, an indirect channel of distribution will usually be developed. Many manufacturers use multiple channel of distribution for the same product. This decision is consistent with the marketing orientation because several target markets can exist for the same product. The needs and purchasing behavior of each target market can be quite different.

Think of all the different customers and needs that must be met by a carpet manufacturer. The same basic product may be directly to a contractor who is building several large office buildings. To reach a variety of target market, the carpet might be sold through departmental stores, home improvement centers, and specialty carpet and flooring business. Some of those businesses will be contracted by the carpet manufacture's sales people while some very small retail business might buy from a wholesaler or another business that sells carpet for several manufacturers.

The following diagram (chart) is illustrative of the channel of distribution which may exist in a market:

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+-----------------+                   +-----------------+
|                  |                   |                  |
|                  |                   |                  |
|     DIRECT SALE  |                   |     C           |
|     +-----------+                   |     +-----------+
|     |          |                   |     |          |
|     | RETAILER  |                   |     | RETAILER  |
|     +-----------+                   |     +-----------+
|                  |                   |                  |
|     WHOLESALER   |                   |     CONSUMERS   |
|     +-----------+                   |                  |
|     |          |                   |                  |
|     | AGENT     |                   |                  |
|     +-----------+                   |                  |
|                  |                   |                  |
|     AGENT        |                   |                  |
|     +-----------+                   |                  |
|     |          |                   |                  |
|     | WHOLESALER|                   |                  |
|     +-----------+                   |                  |
|                  |                   |                  |
|     AGENT/DEALER |                   |                  |
|     +-----------+                   |                  |
|                  |                   |                  |
|     AGENT/DEALER |                   |                  |
|     +-----------+                   |                  |
|                  |                   |                  |
|     AGENT/DEALER |                   |                  |
|     +-----------+                   |                  |
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|                  |                   |                  |
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The above chart indicates that the number of middlemen may vary. If there is direct sale by the producer to the consumers then there is no middleman. But that is very rare. As the
chart shows the producers may sell goods to retailer who may then sell the same to consumers. The fourth alternative channel of distribution is when any agent/dealer intervenes between the producer and retailers and acts as a middlemen. Another alternative channel is there when producer’s agent sell goods to wholesalers who sell to retailers. Agent/dealer is an independent person/firm buying goods and selling them to retailers. Agent/dealer may also sell to wholesalers who may then sell to retailers and goods are thus made available to consumers. In the channel of distribution there may be more than one agent/dealer and wholesaler.

Why they are used?

- Because producers lack resources to carry out direct marketing.
- Because direct marketing is not feasible.
- Because rate of return on manufacturing > rate of return on retailing.
- Because they reduce the amount of work that must be done.

2. IMPORTANCE OF MARKETING DISTRIBUTION CHANNEL

“MARKETING CHANNELS DETERMINE HOW AND WHERE CUSTOMERS”
Professor Jason C.H. Chen

2.1 INTRODUCTION

In the world of global competition, marketing channels is gaining importance. Marketing channels, also called distribution management, which is closely related to supply chain management, deals with “place” element of the marketing mix. Most producers use intermediaries to bring their products to market. They try to develop a distribution channel (marketing channel) to do this. A distribution channel is a set of interdependent organizations that help make a product available for use or consumption by the consumer or business user. Channel intermediaries are firms or individuals such as wholesalers, agents, brokers, or retailers who help move a product from the producer to the consumer or business user.

A company’s channel decisions directly affect every other marketing decision. Place decisions, for example, affect pricing. Marketers that distribute products through mass merchandisers such as Wal-Mart will have different pricing objectives and strategies than will those that sell to specialty stores. Distribution decisions can sometimes give a product a distinct position in the market. The choice of retailers and other intermediaries is strongly tied to the product itself. Manufacturers select mass merchandisers to sell mid-price-range products while they distribute top-of-the-line products through high-end department and specialty stores. The firm’s sales force and communications decisions depend on how much persuasion, training, motivation, and support its channel partners need. Whether a company develops or acquires certain new products may depend on how well those products fit the capabilities of its channel members.
Some companies pay too little attention to their distribution channels. Others, such as FedEx, Dell Computer, and Charles Schwab have used imaginative distribution systems to gain a competitive advantage.

2.2 THE NEED FOR DISTRIBUTION CHANNELS

Why are all layers needed in distribution? Why can’t a producer simply sell to a retailer, who sells to a consumer? It’s a fair question, and in some cases, that is exactly how it happens. But the fact is that many producers are either too small or too large to handle all the necessary functions themselves to get their products to market.

Consider the small, specialty manufacturer who is terrific at making fine leather handbags but may not have the expertise to market its products as well as it makes them, or they may not have the money to hire a team of full-time salespeople to court the customers and secure the orders. An intermediary who works for several small, noncompeting firms can easily handle those functions cost-effectively. An intermediary who specializes in importing and exporting can handle the intricacies of customs paperwork, overseas shipping, and foreign markets, too.

Conversely, large companies need intermediaries because they are also in the business of manufacturing, not marketing. Turning out tens of thousands of cases of soft drinks, for instance, do you think Pepsi has time to take and fill individual orders from households? Channel members like wholesalers and retailers are useful because they are best at specific aspects of sales in their markets, leaving the manufacturers to do what they do best—which is turn out the best possible product.

Having a distribution channel breaks the whole buying and selling process and all its related negotiations into manageable tasks, each performed by companies that specialize in certain skills. Using an import wholesaler, for example, can be handy because they know the laws and customs of the suppliers’ nations; and they generally offer their own lines of credit so the retailer won’t have to deal with currency exchange or negotiate payment terms with a bank in another country.

Channel members may also work together to purchase goods or services in greater quantity at discounts, passing the savings on to customers. Even for consumers, the distribution chain is handy—beyond handy, in fact! It has become a necessity in our society. What if there were no supermarkets, for instance? Can you imagine how much more time and money you would spend having to buy every item at its source? How practical would it be to run out to the nearest farm to pick up a quart of milk and some salad ingredients on your way home from work?

As noted, distribution channels often require the assistance of others in order for the marketer to reach its target market. But why exactly does a company need others to help with the distribution of their product? Wouldn’t a company that handles its own distribution functions be in a better position to exercise control over product sales and potentially earn higher profits? Also, doesn’t the Internet make it much easier to distribute products thus lessening the need for others to be involved in selling a company’s product? While on the surface it may seem to make sense for a company to operate its own distribution channel (i.e., handling all aspects of distribution) there are many factors preventing companies from doing so. While companies can do without the assistance of
certain channel members, for many marketers some level of channel partnership is needed. For example, marketers who are successful without utilizing resellers to sell their product (e.g., Dell Computers sells mostly through the Internet and not in retail stores) may still need assistance with certain parts of the distribution process (e.g., Dell uses parcel post shippers such as FedEx and UPS). In Dell’s case creating their own transportation system makes little sense given how large such a system would need to be in order to service Dell’s customer base. Thus, by using shipping companies Dell is taking advantage of the benefits these services offer to Dell and to Dell’s customers.

When products and services are exchanged, they move through a channel of distribution. A channel of distribution is made up of the organizations and individuals who participate in the movement and exchange of products and services from the producer to the final consumer. The channels can be very simple, involving only the producer and the final consumer or it can be very complex, involving many businesses.

If you buy a local newspaper, it is often written and edited by one company, printed by one of several other companies located in various parts of the country, and then distributed and sold by other companies. There are several reasons that channels of distribution are needed in marketing.

2.3 STRATEGIC IMPORTANCE OF DISTRIBUTION CHANNELS

I am addressing the strategic importance of distribution channels in marketing by exploring how these channels help businesses meet their marketing and sales objectives. A marketing channel is defined as the means by which the physical flow of goods and services are distributed to consumers and users. A marketing channel is critical to large and small businesses because they use these distribution channels to meet their marketing and business objectives by providing and delivering products and/or services that generate profit and increase their customer base.

While some businesses can handle all factors and aspects of its own distribution, others require some level of distribution partnership. Choosing the right distribution channel to move products or services to the end user is a long-term strategic decision and varies according to the product, service and market. When choosing a distribution strategy, a marketer must determine what value a channel member adds to the firm’s products and/or service. A well-chosen channel is necessary because it constitutes a significant competitive advantage and is designed to save on cost, improve and increase efficiency, provide routinization of transactions, provide a larger customer base, and allows businesses to focus on other aspects of the organization. It is important that the channel also provide businesses with strategic promotion, brand strategy, and provide convenience for customers while bridging the gap between the assortment of goods and services generated by producers and those in demand from consumers. Poorly chosen channels can have long-term consequences and can ultimately lead to a superior product or services failure in the market.

Having access to good distribution is fundamental to good marketing. Within the distribution channel is the ability to use intermediaries to strategically market a product or service.
Why the growing importance of marketing channels?

1. The explosion of information technology and Ecommerce.
2. A greater difficulty in gaining a sustainable competitive advantage.
3. The growing power of distributors, especially retailers in marketing channels.
4. The need to reduce distribution costs.

Thus in short way we can say that Distribution is important because:

**Firstly**, it affects sales - if it’s not available it can’t be sold. Most customers won’t wait.

**Secondly**, distribution affects profits and competitiveness since it can contribute up to 50 percent of the final selling price of some goods. This affects cost competitiveness as well as profits since margins are squeezed by distribution costs.

**Thirdly**, delivery is seen as part of the product influencing customer satisfaction. Distribution and its associated customer service play a big part in relationship marketing.

### 3. SELECTION OF MARKETING DISTRIBUTION CHANNEL

#### 3.1 INTRODUCTION

With channels of distribution changing rapidly and multi-channeling becoming increasingly widespread, studies of consumers will need to focus not just on understanding product choice, but also on understanding the reasons for channel choice. Although the choice of individual channels and the adoption of new channels have been researched, there is little to suggest that we have a more general understanding of why consumers, although purchasing essentially similar products, use some channels rather than others. Using the example of financial services, where multi-channeling has been the norm for some time, this research reports on an exploratory study to identify those factors which influence channel choice. Based on the results of focus group discussions, the research argues that channel choice in financial service can usefully be conceptualized as being determined by consumer, product channel and organizational characteristics, with product-channel interactions and consumer-channel interactions being particularly.

**Distribution Channels** – is the structure that determines how an producer’s product or services is delivered to the end customer. In many situations, this process involves the use of intermediaries. Proper selection of distribution channels is important as it means you are able to communicate and deliver your products and services using the most effective ways to your customers within the target markets.

Marketing-channel decisions are among the most critical decisions facing management. The company’s chosen channel(s) profoundly affect all other marketing decisions.

Manufacturers have many alternatives for reaching a market. They can sell direct or use one-, two-, or three-level channels. Deciding which type(s) of channel to use calls for analyzing customer needs, establishing channel objectives, and identifying and evaluating the major alternatives, including the types and numbers of intermediaries involved in the channel.

A marketing channel system is the particular set of marketing channels employed by a firm. Decisions about the marketing channel system are among the most critical facing
management. Marketing channels also represent a substantial opportunity cost. One of the chief roles of marketing channels is to convert potential buyers into profitable orders.

In managing its intermediaries, the firm must decide how much effort to devote to push versus pull marketing. A push strategy involves the manufacturer using its sales force and trade promotion money to induce intermediaries to carry, promote, and sell the product to end users. Push strategy is appropriate where there is low brand loyalty in a category, brand choice is made in the store, the product is an impulse item, and product benefits are well understood. A pull strategy involves the manufacturer using advertising and promotion to persuade consumers to ask intermediaries for the product, thus inducing the intermediaries to order it. 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.

The channels chosen affect all other marketing decisions. The company’s pricing depends on whether it uses mass merchandisers or high quality boutiques. Channel decisions involve relatively long term commitments to other firms as well as a set of policies and procedures. The channel decision is very important. In theory at least, there is a form of trade-off: the cost of using intermediaries to achieve wider distribution is supposedly lower. Indeed, most consumer goods manufacturers could never justify the cost of selling direct to their consumers, except by mail order. Many suppliers seem to assume that once their product has been sold into the channel, into the beginning of the distribution chain, their job is finished. Yet that distribution chain is merely assuming a part of the supplier's responsibility; and, if they have any aspirations to be market-oriented, their job should really be extended to managing all the processes involved in that chain, until the product or service arrives with the end-user. This may involve a number of decisions on the part of the supplier:

- Channel membership
- Channel motivation
- Monitoring and managing channel

After a company has chosen a channel alternative, individual intermediaries must be selected, trained, motivated and evaluated. Companies need to select their channel members carefully. To customers, the channels are the company. To facilitate channel member selection, producers should determine what characteristics distinguish the better intermediaries.

A company needs to view its intermediaries in the same way it views its end users. Being able to stimulate channel members to top performance starts with understanding their needs and wants. The company should provide training programs, market research programs, and other capability-building programs to improve intermediaries’ performance.

A producer must periodically review and modify its channel arrangements.

Modification becomes necessary when the distribution channel is not working as planned, consumer buying patterns change, the market expands, new competition arises, innovative distribution channel emerge, and the product moves into later stages in the product life cycle. A number of alternate 'channels' of distribution may be available:

- Distributor, who sells to retailers, Retailer (also called dealer or reseller), who sells to end customers,
Advertisement typically used for consumption goods.

CHANNEL MOTIVATION

It is difficult enough to motivate direct employees to provide the necessary sales and service support. Motivating the owners and employees of the independent organizations in a distribution chain requires even greater effort. There are many devices for achieving such motivation. Perhaps the most usual is 'incentive': the supplier offers a better margin, to tempt the owners in the channel to push the product rather than its competitors; or compensation is offered to the distributors' sales personnel, so that they are tempted to push the product. Dent defines this incentive as a Channel Value Proposition or business case, with which the supplier sells the channel member on the commercial merits of doing business together. He describes this as selling business models not products.

MONITORING AND MANAGING CHANNELS

In much the same way that the organization's own sales and distribution activities need to be monitored and managed, so will those of the distribution chain. In practice, many organizations use a mix of different channels; in particular, they may complement a direct sales force, calling on the larger accounts, with agents, covering the smaller customers and prospects. These channels show marketing strategies of an organization. Effective management of distribution channel requires making and implementing decision in these areas.

3.2 HOW CHANNELS ARE CHOSEN?

Although retailers drive distribution channels, it is not usually the retailer who makes the decision to utilize one channel over the others. The producer of the product makes this decision. There are several characteristics of product lines that make them more or less appropriate for a particular type of channel.

Briefly, these characteristics can be summarized as follows:

- **The products themselves.**
  If a product is perishable, like many grocery items, it requires the shortest, most direct distribution channel—which means the fewest possible intermediaries along the way. If a product is customized, like an expensive assembled-to-order computer system, it also benefits from a short distribution channel. There is no need for intermediaries when a customer orders a custom product directly from the company that makes it. Long distribution channels correspond to small purchases, either because the retailer doesn’t carry much inventory or the consumer buys the item in small quantities.

- **The type of customer.**
  Who are the customers, what do they need and expect from their shopping experience, and where are they willing to go to buy this type of product? How much quantity do they buy at a time? A channel may be chosen because it best reflects the end users' buying habits. Business-to-business customers have completely different needs and buying habits than individual consumers.
Market size.
This factor encompasses two things: the population of an area and whether it is urban or rural. It is easier to sell direct to customers in a large city with lots of potential outlets for a product line. The more widely dispersed the stores, the more logical the dependence on agents and wholesalers—or on multiple retailers in different cities—to keep product sales strong and steady.

The producer’s level of control.
Most top-dollar clothing designers and fragrance manufacturers do not want their products showing up anywhere and everywhere. They’ve worked hard to build an exclusive reputation, and they expect their distribution channel to work just as hard to protect and enhance their upscale image. These producers will choose a distribution channel that ensures no discount merchants have access to their lines, and they will count on the members of their channel to honour their wishes and not make bargain “deals.”

The size of the producing company.
A producer is likely to sell direct when the company is large enough to handle the additional responsibilities that intermediaries would otherwise provide—credit to customers, warehouses for their own goods, the ability to hire and train their own sales representatives.
Smaller producers require a larger distribution chain in order to fill these roles.

The size of the retailers.
A segment of the industry that is fragmented, with most of the stores operating as single units, requires the distribution channel to be longer. This was the case in the 1980s with video rental stores, for example, until Blockbuster Video opened and began its climb to dominate the market.

FACTORS AFFECTING THE CHOICE OF DISTRIBUTION CHANNELS
The choice of a suitable channel of distribution is one of the most important decisions in the marketing of products because channel affects the time and costs of distribution as well as the volume of sales.
It also influences pricing and promoting efforts and dealer relations. Choice of a channel of distribution involves the selection of the best possible combination of middlemen or intermediaries.
The objective is to secure the largest possible distribution at minimum cost. The channel must be flexible and efficient. It should be consistent with the declared marketing policies and programmes of the firm.
Such a channel can be selected by evaluating alternative channels in terms of their costs, sales potential and suitability. The factors affecting the choice of distribution channels may be classified as follows:

- Market considerations (type of market, number of potential customers, geographic concentration, order size)
- Product considerations (unit value, perish ability, technical nature)
Middlemen considerations (services provided by middlemen, availability of desired middlemen, producer's and middlemen's policies)

Company considerations (desire for channel control, services provided by seller, ability of management, financial resources)

Channel choices affect the decisions in the Marketing mix: Pricing, Marketing, and Communications.

- A Strong distribution system can be a competitive advantage.
- Channel decisions involve long term commitment to other firms.
- Identify special target markets within and across countries.
- Specify marketing goals in terms of volume, market share, and profit margin requirements.
- Specify financial and commercial commitments to the development of international distributions.
- Identify control, length of channels, terms of sale, and channel ownership.

Market Consideration: - Another important factor influencing the choice of distribution channel is the nature of the target market. Some of the important features in this respect are:

- If the market for the product is meant for industrial users, the channel of distribution will not need any middlemen because they buy the product in large quantities. Short one and may as they buy in a large quantity. While in the case of the goods meant for domestic consumers, middlemen may have to be involved.
- If the number of prospective customers is small or the market for the product is geographically located in a limited area, direct selling is more suitable. While in case of a large number of potential customers, use of middlemen becomes necessary.
- If the customers place order for the product in big lots, direct selling is preferred. But, if the product is sold in small quantities, middlemen are used to distribute such products.

The nature and type of customers is an important consideration in the choice of a channel of distribution. Following factors relating to the market are particularly significant.

(a) Consumer or industrial market:
The purpose of buying has an important influence on channel. Goods purchased for industrial or commercial use are usually sold directly or through agents. This is because industrial users buy in a large quantity and the producer can easily establish a direct contact with them. To ultimate consumers, goods are sold normally through middlemen.

(b) Number and location of buyers:
When the number of potential customers is small or the market is geographically located in a limited area, direct selling is easy and economical. In case of large number of customers and widely scattered markets, use of wholesalers and retailers becomes necessary.

(c) Size and frequency of order:
Direct selling is convenient and economical in case of large and infrequent orders. When articles are purchased very frequently and each purchase order is small, middlemen may have to be used.
A manufacturer may use different channels for different types of buyers. He may sell directly to departmental and chain stores and may depend upon wholesalers to sell to small retail stores.

**Customer's buying habits:**
The amount of time and effort which customers are willing to spend in shopping is an important consideration. Customer expectations like desire for one-stop shopping, need for personal attention, preference for self-service and desire for credit also influence the choice of trade channel.

**Product Consideration**

The type and the nature of products manufactured is one of the important elements in choosing the distribution channel. The main characteristics of the product in this respect are given below:

(a) **Unit Value:**
Products of low unit value and common use are generally sold through middlemen as they cannot bear the cost of direct selling. Low-priced and high turnover articles like cosmetics, hosiery goods, stationery and small accessory equipment usually flow through a long channel.

On the other hand, expensive consumer goods and industrial products are sold directly by the producers.

(b) **Perishability:**
Perishable products like vegetables, fruits, milk and eggs have relatively short channels as they cannot withstand repeated handling. Same is true about articles of seasonal nature.

Goods which are subject to frequent changes in fashion and style are generally distributed through short channels as the producer has to maintain close and continuous touch with the market. Durable and non-fashionable articles are sold through agents and merchants.

(c) **Bulk and weight:**
Heavy and bulky products are distributed through shorter channels to minimise handling costs. Coal, bricks, stones, etc., are some examples.

(d) **Standardisation:**
Custom-made and non-standardised products usually pass through short channels due to the need for direct contact between the producer and the consumers. Standardised and mass-made goods can be distributed through middlemen.

(e) **Technical nature:**
Products requiring demonstration, installation and after sale services are often sold directly the producer appoints sales engineers to sell and service industrial equipment and other products of technical nature.

(f) **Product line:**
A firm producing a wide range of products may find it economical to set up its own retail outlets. On the other hand, firms with one or two products find it profitable to distribute through wholesalers and retailers.

(g) **Age of the product:**
A new product needs greater promotional effort and few middlemen may like to handle it. As the product gains acceptance in the market, more middlemen may be employed for its
distribution. Channels used for competitive products may also influence the choice of distribution channels.

The major product related factors are:

- Products of low unit value and of common use are generally sold through middlemen. Whereas, expensive consumer goods and industrial products are sold directly by the producer himself.
- Perishable products; products subjected to frequent changes in fashion or style as well as heavy and bulky products follow relatively shorter routes and are generally distributed directly to minimise costs.
- Industrial products requiring demonstration, installation and after sale service are often sold directly to the consumers. While the consumer products of technical nature are generally sold through retailers.
- An entrepreneur producing a wide range of products may find it economical to set up his own retail outlets and sell directly to the consumers. On the other hand, firms producing a narrow range of products may their products distribute through wholesalers and retailers.
- A new product needs greater promotional efforts in the initial stages and hence few middlemen may be required.

**Middlemen considerations**

The cost and efficiency of distribution depend largely upon the nature and type of middlemen as reflected in the following factors:

**(a) Availability:**
When desired type of middlemen is not available, a manufacturer may have to establish his own distribution network. Non-availability of middlemen may arise when they are handling competitive products as they do not like to handle more brands.

**(b) Attitudes:**
Middlemen who do not like a firm's marketing policies may refuse to handle its products. For instance, some wholesalers and retailers demand sole selling rights or a guarantee against fall in prices.

**(c) Services:**
Use of middlemen is profitable who provide financing, storage, promotion and after sale services.

**(d) Sales potential:**
A manufacturer generally prefers a dealer who offers the greatest potential volume of sales.

**(e) Costs:**
Choice of a channel should be made after comparing the costs of distribution through alternative channels.

**(f) Customs and competition:**
The channels traditionally used for a product are likely to influence the choice. For instance, locks are sold usually through hardware stores and their distribution through general stores may not be preferred. Channels used by competitors are also important.

**(g) Legal constraints:**
Government regulations regarding certain products may influence channel decision. For instance, liquor and drugs can be distributed only through licensed shops.

As stated above, a channel of distribution consists of some middlemen in addition to the manufacturer and the consumer. Middlemen or intermediaries are persons and institutions which serve as connecting links between the producer and ultimate consumers. Further we will discuss about Middlemen in detail.

**Company considerations**

The nature, size and objectives of the firm play an important role in channel decisions.  
**(a) Market standing:**  
Well-established companies with good reputation in the market are in a better position to eliminate middlemen than new and less known firms.  
**(b) Financial resources:** A large firm with sufficient funds can establish its own retail shops to sell directly to consumers. But a small or weak enterprise which cannot invest money in distribution has to depend on middlemen for the marketing of its products.  
**(c) Management:**  
The competence and experience of management exercises influence on channel decision. If the management of a firm has sufficient knowledge and experience of distribution it may prefer direct selling. Firms whose managements lack marketing know-how have to depend on middlemen.  
**(d) Volume of production:**  
A big firm with large output may find it profitable to set up its own retail outlets throughout the country. But a manufacturer producing a small quantity can distribute his output more economically through middlemen.  
**(e) Desire for control of channel:**  
Firms that want to have close control over the distribution of their products use a short channel. Such firms can have more aggressive promotion and a thorough understanding of customers' requirements. A firm not desirous of control over channel can freely employ middlemen.  
**(f) Services provided by manufacturers:**  
A company that sells directly has itself to provide installation, credit, home delivery, after sale services and other facilities to customers. Firms which do not or cannot provide such services have to depend upon middlemen.

**Other Considerations**

There are several other factors that an entrepreneur must take into account while choosing a distribution channel. Some of these are as follows:-

- A new business firm may need to involve one or more middlemen in order to promote its product, while a well established firm with a good market standing may sell its product directly to the consumers.
- A small firm which cannot invest in setting up its own distribution network has to depend on middlemen for selling its product. On the other hand, a large firm can establish its own retail outlets.
The distribution costs of each channel is also an important factor because it affects the price of the final product. Generally, a less expensive channel is preferred. But sometimes, a channel which is more convenient to the customers is preferred even if it is more expensive.

If the demand for the product is high, more number of channels may be used to profitably distribute the product to maximum number of customers. But, if the demand is low only a few channels would be sufficient.

The nature and the type of the middlemen required by the firm and its availability also affect the choice of the distribution channel. A company prefers middlemen who can maximise the volume of sales of their product and also offers other services like storage, promotion as well as after sale services. When the desired type of middlemen is not available, the manufacturer will have to establish his own distribution network.

All these factors or considerations affecting the choice of a distribution channel are inter-related and interdependent. Hence, an entrepreneur must choose the most efficient and cost effective channel of distribution by taking into account all these factors as a whole in the light of the prevailing economic conditions. Such a decision is very important for a business to sustain long term profitability.

Factors that must be taken into account include legal regulations, product image, product characteristics, intermediary's loyalty and conflict, and local customs. A country may have specific laws that rule out the use of particular channels or middlemen. A product with a low-price image requires intensive distribution. So do low-priced, high-turnover, convenience products. As the channel widens and as the number of channels increases, price competition increases and dealers' loyalty is reduced. Finally, local customs may force a manufacturer to employ a channel of distribution that is longer and wider than desired.

An entrepreneur has to choose a suitable channel of distribution for his product such that the channel chosen is flexible, effective and consistent with the declared marketing policies and programmes of the firm. While selecting a distribution channel, the entrepreneur should compare the costs, sales volume and profits expected from alternative channels of distribution.

### 3.3 SELECTING THE TYPE OF DISTRIBUTION CHANNELS

A channel consisting only of producer and final customer, with no middlemen providing assistance, is called direct distribution;
- A channel of producer, final customer, and at least one level of middlemen represents indirect distribution;
- With indirect distribution a producer must determine the type(s) of middlemen that will best serve its needs;

Distribution strategy is influenced by the market structure, the firm's objectives, its resources and of course it's overall marketing strategy. All these factors are addressed in the section on selecting Distribution Channels.

The first strategic decision is whether the distribution is to be: Intensive (with mass distribution into all outlets as in the case of confectionery); Selective (with carefully chosen
distributors e.g. specialty goods such as car repair kits); or Exclusive (with distribution restricted to up market outlets, as in the case of Gucci clothes).
The next strategic decision clarifies the number of levels within a channel such as agents, distributors, wholesalers, retailers. In some Japanese markets there are many, many intermediaries involved.
Next comes a sensitive strategic decision whether to go single channel or multi-channel. Some producers, like Manchester United FC, use multi-channels - they use many different routes, direct and indirect, to bring their products to their customers. Multi-channel Systems like this are common where intensive distribution is required. So direct marketing is combined with indirect marketing through intermediaries.

Presents a framework and a method for addressing the new product channel choice decision. Offers a six-step method that involves: 1) disaggregating and prioritizing a distribution channel by customers' channel function requirements; 2) obtaining and combining customers' (and key informants) evaluations of the channel functions; 3) benchmarking existing channels (own as well as competitors'); 4) identifying and constructing effective channel alternatives; 5) quantifying the short-term and long-term benefits and costs of each alternative; and 6) selecting the appropriate channel by trading off the opportunities versus constraints posed by existing channel networks (if applicable). The method requires extensive management participation to facilitate its implementation. Provides an illustrative application to demonstrate its managerial usefulness.

3.4 CHOOSING THE RIGHT DISTRIBUTOR

Having decided to go through intermediaries the next question is whether to use agents or distributors and also how many. Unlike distributors, agents don't hold stocks - they only act as sales agents finding customers, collecting orders and passing them on to the supplier in return for a percentage commission.

How would you select a distributor or an agent? Here are some criteria:

1. Market Coverage: - does the profile of existing customers match your target market profile? - is the number of customers big enough to meet the required distribution penetration? - is the existing sales force big enough to cover the territory? - are they dependant on a single individual? - are the existing delivery fleet and warehouse facilities adequate?

2. Sales Forecast: How many can they sell? What are their forecasts based upon? Do they give a 'best, worst and average' forecast? Will they invest in large stock commitment? Do they have budgets to run promotions? Some suppliers even ask their distributors for a marketing plan showing how they intend to market the supplier's products.

3. Cost: What will it cost in terms of discounts, commissions, stock investment and marketing support?
4. Other Resources: Does the target market require anything special such as technical advice, installation, quick deliveries, instant availability? If so can the distributor provide it?

5. Profitability: How much profit will the distributor generate for the supplier?

6. Control: Do they have a reporting system in place? How do they deal with problems? How often are review meetings scheduled? Can you influence the way they present your products?

7. Motivation: Does the agent or distributor convey a sense of excitement and enthusiasm about the product? What about its sales force - what's their reaction?

8. Reputation: Has it got a good track record? This includes the number of years in business, growth and profit record, solvency, general stability and overall reliability. Is it dependant on one key player?

9. Competition: Do they distribute any competitor's products?


When deciding whether to use agents, wholesalers, broker or retailer to distribute our product, we will need to consider the following six factors as summarized in the “choosing the right distributor”.

- **Number & Types of consumers**: If we are a manufacturing company and deal with a few large customers, we may decide to sell directly to customers by using your own salespeople or by contracting the services of a distributor or selling agency. In general the more diversified your customer base, the more you will need to use the services of wholesalers and retailers.

- **Concentration of Market**: Using our own distribution system is possible if our customers are concentrated in a few areas. However, if customers are scattered, it is usually more economical to use the services of a distributor.

- **Price of Product**: The less expensive our product, the more likely we will need to use a distributor, wholesaler and/or retailer. Cheaper items are often sold in bulk to intermediaries or wholesaler who then distribute them in smaller numbers to retailers. Expensive, technological products, such as computers or industrial equipment are usually sold directly by the manufacturer or through a specialized agents.

- **Complexity of Product**: Higher technical items are usually sold directly by the manufacturer. The producer’s sales force usually can offer better pre-sale information, as well as, post sale service, which most wholesalers would not be able to provide.
Financial Resources - Many new manufacturers cannot afford to establish a distribution system, grant credit or provide warehousing for products. It is usually more practical and economical for new manufacturers to rely on experienced distributors who have numerous contacts.

Need for control - Some manufacturers want to maintain tight control over their product by highly distribution even through their overhead costs will be higher. They feel they can thus maintain a consistent price, provide better service and maintain high performance standards. Most consumer products such as food, clothing or furniture are not sold directly by the producer because the control over quality of service and price maintenance is less important.

CHOOSING THE RIGHT DISTRIBUTOR

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<th>NUMBER &amp; TYPES OF CUSTOMERS</th>
<th>SELL DIRECTLY YOURSELF</th>
<th>USE AN AGENT OR BROKER</th>
<th>USE A WHOLESALER</th>
<th>USE A RETAILER</th>
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<td>LESS EXPENSIVE</td>
<td>INEXPENSIVE</td>
<td>INEXPENSIVE</td>
</tr>
<tr>
<td>COMPLEXITY OF PRODUCT</td>
<td>HIGH TECHNICAL</td>
<td>LESS TECHNICAL</td>
<td>SIMPLE</td>
<td>SIMPLE</td>
</tr>
<tr>
<td>FINANCIAL RESOURCES</td>
<td>EXTENSIVE</td>
<td>ADEQUATE</td>
<td>LIMITED</td>
<td>ADEQUATE</td>
</tr>
<tr>
<td>NEED FOR CONTROL</td>
<td>HIGH</td>
<td>HIGH</td>
<td>LOW</td>
<td>LOW</td>
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</tbody>
</table>

Having access to good distribution is fundamental to good marketing. Business operators need to be able to deliver their products and services to the right people, at the right time, in the right quantities, and at the lowest cost. For the most part, this means understanding the various marketing channels, through which merchandise can be moved, and learning how to factor in additional storage and shipping costs. The selection of distribution channels is key to successful marketing.
3.5 SELECTING CHANNELS FOR SMALL BUSINESSES

Given the importance of distribution channels long with the limited resources generally available to small businesses is particularly important for entrepreneurs to make a careful assessment of their channel alternatives. In evaluating possible channels, it may be helpful first to analyze the distribution channels used by competitors. This analysis may reveal that using the same channels would provide the best option, or it may show that choosing an alternative channel structure would give the small business a competitive advantage. Other factors to consider include the company's pricing strategy and internal resources. As a general rule, as the number of intermediaries included in a channel increase, producers lose a greater percentage of their control over the product and pay more to compensate each participating channel level. At the same time, however, more intermediaries can also provide greater market coverage.

Among the many channels a small business owner can choose from are: direct sales (which provides the advantage of direct contact with the consumer); original equipment manufacturer (OEM) sales (in which a small business's product is sold to another company that incorporates it into a finished product); manufacturer's representatives (salespeople operating out of agencies that handle an assortment of complimentary products); wholesalers (which generally buy goods in large quantities, warehouse them, then break them down into smaller shipments for their customers usually retailers); brokers (who act as intermediaries between producers and wholesalers or retailers); retailers (which include independent stores as well as regional and national chains); and direct mail. Ideally, the distribution channels selected by a small business owner should be close to the desired market, able to provide necessary services to buyers, able to handle local advertising and promotion, experienced in selling compatible product lines, solid financially, cooperative, and reputable.

Since many small businesses lack the resources to hire, train, and supervise their own sales forces, sales agents and brokers are a common distribution channel. Many small businesses consign their output to an agent, who might sell it to various wholesalers, one large distributor, or a number of retail outlets. In this way, an agent might provide the small business with access to channels it would not otherwise have had. Moreover, since most agents work on a commission basis, the cost of sales drops when the level of sales drops, which provides small businesses with some measure of protection against economic downturns. When selecting an agent, an entrepreneur should look for one who has experience with desired channels as well as with closely related not competitive products.

3.6 SELECTING THE MARKETING CHANNEL STRATEGY FOR CONSUMER GOODS

In terms of the four major elements of a marketing strategy, product, place (or method of distribution), price, and promotion, the selection of a marketing channel affects both place and promotion, because it describes the path that goods or services take in moving from producer to consumer. Before selecting a channel strategy, management has to first decide upon the types of channel to be used and then determine the desired distribution intensity.

According to Cravens (2000), a value chain or channel of distribution is a group of vertically aligned organizations that add value to a good or service in moving from basic supplies to finished products to consumer and organizational end-users. Porter's value chain analysis
model elaborates this concept of a firm's value chain into an even larger stream of activities, which Porter calls a value system (Porter 1980). When a company has to select a new channel strategy for a new product or market entry or aims to improve the existing strategy, a sound understanding of the entire value system is necessary. Thus, the company can find out how and through which activities value is added and which activities have the potential to be streamlined. A reflection on the value system, including the value chain of the company, its suppliers, distributors and customers is necessary to provide a framework for the systematic evaluation of a company’s position and power within a value chain system.

The channel selection process starts generally by finding and selecting a target market, decisions which frequently are made on the basis of marketing research. With this information the company has to develop a strategy to enter the market and choose an appropriate mode of entry. There are several different market entry modes, which will be further explained in the next paragraph. Since they all have advantages as well as disadvantages, the selection or suitability depends on the company, its resources, its products etc.

Significance of adopting a suitable distribution channel--

It is important to select appropriate channel, because the distribution channel we select can determine the Level of success our organization achieves. In case of retail items like T.V or DVDs, Those Intermediaries that use poor promotional techniques or are unable to keep up with consumer demand can damage our products marketability and sales. Having said that, it will be adequate to mention various factors that should be considered while selecting a distribution channels:

- The size of target market
- Where the target market is located
- The details of buying habits of the target

Only, after having above information, one could adopt a suitable strategy that would guarantee success.

4. MARKETING MIDDLEMEN (INTERMEDIARIES)

“Marketing channels are usually made up of independent firms who are in business to make a profit. These are known as marketing intermediaries or middlemen.”

4.1 INTRODUCTION

A CHANNEL OF DISTRIBUTION is the whole series of marketing intermediaries who join together to transport and store goods in their path from producers to consumers. It is the network of institutions that perform a verity of interrelated and coordinating functions in the movement of goods from producers to consumers. The distribution system involves many process. It is the movement of goods from manufacturers to the end consumers. Many parties are involved in the distribution system. Main parties are (1) Manufactures or producers (2) Distributions (3) Facilitating agencies (4) Consumers.
Manufactures produce the goods. It could be manufacturing goods in a factory or other goods which are produced in the farm like grains and fruits. Distributors distribute the goods to the consumers. They are also called intermediaries. They identify the demand and source of goods. They directly negotiate between the producer and consumers. They also does certain other functions like buying, selling, Packing, Packaging, assembling, grading, risk bearing etc. Facilitating agencies are the agencies who facilitate the transfer of goods from producers to the consumers. Insurance companies, Banking institutions.

MARKETING INTERMEDIARIES are organization that assist in moving goods and services from producer to industrial and consumer users. They are organizations (formerly called "middlemen") in the middle of a series of organizations that join together to help distribute goods. There are hundreds of thousands of marketing intermediaries whose job it is to help move goods from the raw-material state to producers and then on to consumers. A WHOLESALER is a marketing intermediary that sells to other organizations. A RETAILER is an organization that sells to ultimate consumers.

DEFINATIONS OF MIDDLEMEN

Middlemen have a role in providing information about the market to the manufacturer. Developments like change in consumer democracy, psychology, psychograph, media habit and the entry of a new competitor or a new brand and changes in consumer preference are some kind of information that manufacturers wants. Since these middlemen are close to the consumer and present in the market place they can provide this information without spending cost. The development and dissemination of persuasive communication designed to attract consumer to the offer. Promoting the product/s in his territory is another function that middleman perform. Many of them design their own sales incentive programs aimed at building consumer traffic at their outlet.

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

"Middleman is one who specialises in performing operations or rendering services that are directly involved in the purchase and sale of goods in the process of their flow from producer to final buyer.

American Marketing Association

"Middleman is an independent business concern situated in marketing channels at points between producer and consumers.

Beckman

"Intermediary within a channel of distribution used to transfer products from the manufacturer to the end user. Those who actually take title to the products and resell them are merchant middlemen. Those who act as brokers but do not take title are agent middlemen. Merchant middlemen include wholesalers and retailers. Agent middlemen include manufacturer's representatives, brokers, and sales agents. Middlemen expand the capacity of the manufacturer to distribute products to the end user, transfer title between channel levels, collect payments from middlemen and end users, and communicate product information to all channel participants. When the financial and expert resources are
available in house, manufacturers can increase their profit margins by reducing the involvement of middlemen."

**BUSINESS DEFINITION**

Manufacturing firms, unless they wish to assume the burden of selling their products directly, use external distribution and marketing channels, otherwise known as intermediaries or middlemen. Middlemen, which help the producing company get their product to the end consumer, include:

- Sales agents
- Manufacturer’s representatives
- Brokers
- Distributors
- Selling agencies
- Wholesalers
- Retailers
- Trading houses among others;

Middlemen are used as go betwen because the manufacturing company may not be as familiar with the market situation in various areas of the country as they would like to be and thus could use some direction in their overall marketing effort and because they do not have the resources themselves to setup their own sales force.

### 4.2 CHANNEL INTERMEDIARIES OR MIDDLEMEN

Channel Intermediaries are individuals or organizations who mediate exchange utility in relationships involving two or more partners. Intermediaries generate form, place, time, and/or ownership values by bringing together buyers and sellers. Intermediaries have always helped channels CRAM it:

- create utility by contributing to contractual efficiency
- facilitating Routinization
- simplifying Assortment
- Minimizing uncertainty within marketing channels.

**Contractual Efficiency**

Channels consist of sets of marketing relationships that emerge from the exchange process. An important function performed by intermediaries is their role in optimizing the number of exchange relationships needed to complete transactions. Contractual Efficiency describes this movement toward a point of equilibrium between the quantity and quality of exchange relationships between channel members. Without channel intermediaries, each buyer would have to interact directly with each seller, making for an extremely difficult state of affairs. When only two parties are involved in an exchange, the relationship is said to be a Dyadic relationship. The process of exchange in a dyadic relationship is fairly simple but becomes far more complicated as the number of channel participants increases. The number of relationships unfolding within a channel would quickly become too complicated to efficiently manage if each channel member had to deal with all other channel members. In this context, the value of channel intermediaries as producers of contractual efficiency becomes obvious. Still, having too many channel intermediaries in a marketing channel leads to inefficiencies. As the number of intermediaries approaches the number of
organizations in the channel, the law of diminishing returns kicks in. At that point, additional intermediaries add little or no incremental value within the channel.

**Routinization**

Routinization refers to the means by which transaction processes are standardized to improve the flow of goods and services through the marketing channels. It delivers several advantages to channel participants. First, as transaction processes become routine, the expectations of channel partners become institutionalized. There is then no need to negotiate terms of sale or delivery on a transaction-by-transaction basis. Second, routinization permits channel partners to concentrate more attention on their own core business concerns. Furthermore, routinization provides a basis for strengthening the relationship between channel participants.

**Sorting**

Organizations strive to ensure that all market offerings they produce are eventually converted into goods and services consumed by those in their target market. The process by which this market progression unfolds is called Sorting. In a channel context, sorting is often described as a smoothing function. This function entails the conversion of raw materials to increasingly more refined forms until the goods are acceptable for use by the final consumer. Two principal tasks associated with the sorting function are:

a. **Categorizing**

At some point in every channel, large amounts of heterogeneous supplies have to be converted into smaller homogenous subsets. In performing the categorization task, intermediaries first arrange this vast product portfolio into manageable categories. The items within these categories are then categorized further to satisfy the specific needs of individual customers.

b. **Breaking Bulk**: Producers try to produce in bulk quantities. Thus, it is often necessary for intermediaries to break homogenous lots into smaller units. The sorting function makes astounding contributions to profit.

**Minimizing Uncertainty**

The role that intermediaries play in minimizing uncertainty is perhaps their most overlooked function. Several kinds of uncertainties develop naturally in all market settings:

(a) **Need Uncertainty**

Need uncertainty refers to doubts that sellers often have regarding whether they actually understand the needs of their customers. Most of the time neither sellers nor buyers understand the exact machines, tools, or services required to reach optimal levels of productivity. Since intermediaries function as bridges linking sellers to buyers, they can become much closer to both producers and users than producers and users are to each other. Consequently, the intermediary is in the best position to understand each of their needs and reduce sellers' uncertainty by carefully reconciling what is available with what is needed. Few members within any channel are accurately able to rank and state their needs. Instead most channel members have needs they perceive only dimly, while still other firms and persons have needs of which they are not yet aware. In channels where there is a lot of need uncertainty, intermediaries generally evolve into
specialists. The ranks of intermediaries must then increase, while the roles they play become more complex. Conversely, the number of intermediaries declines as need uncertainty decreases.

(b) Market Uncertainty
Market uncertainty depends upon the number of sources available for a product or service. It is generally difficult to manage because it results from uncontrollable environmental factors—i.e. social, economic and competitive factors. One means by which organizations can reduce their market uncertainty is by broadening their view of what marketing channels can and perhaps should do for them.

(c) Transaction Uncertainty
Transaction uncertainty relates to imperfect channel flows between buyers and sellers. Intermediaries play the key role in ensuring that goods flow smoothly through the channel. The delivery of materials frequently must be timed to coincide with the use of those goods in the production processes of other products and services. Problems arising at any point during these channel flows can lead to higher transaction uncertainty. Such difficulties could arise from legal, cultural or technological resources. When transaction uncertainty is high, buyers attempt to secure parallel suppliers, although this option is not always available. Uncertainty within the marketing channels can be minimized through careful actions taken over a prolonged period of exchange. Naturally as exchange processes become standardized, need, market and transaction uncertainty is lessened. Furthermore, as exchange relationships develop uncertainty decreases because exchange partners get to know one another better and are communicating their needs and capabilities.

The functions performed by marketing intermediaries concurrently satisfy the needs of channel members in several ways:

(i) Facilitating Strategic Aims: The most basic way that the needs of the marketing channels can be assessed and then satisfied centers on the role channel intermediaries can perform in helping channel members reach the goals mapped out in their strategic plans.

(ii) Fulfilling Interaction Requirements: This refers to the degree of coordination and on-site service required by members of the marketing channel. Coordination provides the means by which harmony in ordering systems, delivery timing, and merchandising is achieved between buyers and sellers.

(iii) Satisfying Delivery and Handling Requirements: Channel members are often unaware of their precise delivery and handling requirement needs. By minimizing transaction uncertainty, channel intermediaries help clarify these processes. This facilitates efficient resource management within marketing channels.

(iv) Managing Inventory Requirements: The costs of financing and carrying inventory differ across product categories and channel members. The proficiency with which they determine and ultimately satisfy warehousing, stock-out and product-sustainability needs sets intermediaries apart from each other.

To summarize, channel intermediaries, by bridging producers and their customers, are instrumental in aligning an independent organization’s mission with the market it
serves. Channel-relationship fosters relationship building by providing these fundamental functions in the marketing channel.

While the marketing channel participants will likely change over time, the CRM provides a structure for examining how an array of exchange relationships can create customer value in the distribution of products and services.

4.3 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.

CREATING CUSTOMER VALUE

Organizations take part in marketing channels because they receive a certain utility, known as Exchange Utility from their participation. Exchange Utility is the sum of all costs and benefits realized separately or jointly by all the persons or organizations participating in an exchange relationship.

Four Components of Customer Value

For customers, marketing channels create form, place, possession and time utilities. Form utility implies that the goods are available for consumption in the form sought by consumers, due to the value added by the marketing channels. Place utility saves buyers from having the goods available for consumption at the point of consumption. Possession utility offers the consumers a convenient way to take ownership of the product. The presence of time utility implies that goods will be available for consumption when they are needed.

CREATED EXCHANGE EFFICIENCY

Intermediaries CREATE EXCHANGE EFFICIENCY by decreasing the number of contacts needed to establish marketing exchanges. Not only are intermediaries more efficient, but they are more effective than manufacturers. Intermediaries were often better at performing
their functions than a manufacturer or consumer could be. Recently, technology has made it possible for manufacturers to reach consumers much more efficiently. Some manufacturers reach consumers directly on the Internet. Retailers are now so closely linked with manufacturers that they can get delivery several times a day. Wholesalers are not yet obsolete, but must change their functions to remain viable.

**MAINTAINING CUSTOMER RELATIONSHIPS**

Investing in efforts to maintain existing customers is far more cost efficient than investing in attracting new customers. Businesses spend six times more money in attracting new customers than they do in maintaining existing ones. About 70% of the complaining customers will continue doing business with an organization if they perceive that the problem has been resolved to their satisfaction. Typically, the newly satisfied customer then spreads the good word to about five more people.

**THE CRM: COMPASS POINTS**

The CRM captures four classes of exchange relationships in marketing channels:
- The relationship between a channel member and its external environment, i.e. how various environmental forces such as economic, political, legal, technological, ethical, and socio-cultural dynamics that affect channel members’ goal-oriented activities.
- The relationship between a channel member and its internal environment which assesses the setting in which social and economic interactions between channel members take place. It also considers the social issues and problems which beset the relationship process: coordination, conflict and cooperation.
- The relationship between channel systems: their vertical integration and the emerging roles of franchising in the global marketplace.
- Finally, long-term relationships between channel members and their channel systems, and how strategic partnering can foster superior system performance.

**MIDDLEMEN IN THE MARKET**

Typically, firms called middlemen perform distribution activities on behalf of the producer (or the customer)
- A middleman is a business firm that renders services related directly to the sale and/or purchase of a product as it flows from producer to consumer
- Middlemen are commonly classified on the basis of whether or not they take title to the products being distributed:
  - Merchant middlemen take title to the products they help to market (wholesalers and retailers)
  - Agent middlemen never own the products, but they do arrange the transfer of the title (e.g. real estate brokers or travel agents)

Marketing Middlemen play an important role in marketing the products. In the distribution channel, there are manufacturer and consumer, and in between them there are some middlemen-Wholesalers and Retailers. In our marketing point of view the middlemen and intermediaries are the same. The advertising agencies, warehouses, insurance, companies, banks etc. Facilitating functions in marketing, but cannot be called middlemen. Middlemen perform the marketing functions more economically than the manufacturers, at
a given cost. Their specialisation and experience offer to the manufacturer more than that what manufacturer can achieve at his own. Hence Marketing Middlemen are intermediaries in between the producer and consumer.

Middlemen are engaged in the process of getting goods from growers or manufacturers to users. They create time, place and possession utilities. Any of the intermediary agencies performing any of the market functions may be termed a middlemen. However, the use of the term is generally reserved for those who buy and sell goods and for those assisting in the transfer of title. Middlemen are usually grouped as merchants and functional middlemen, according to their relationship to the goods they handle. Merchants are those who take title to goods, that is, who own them. They, therefore, assume all risks of ownership and perform all or most of the functions of distribution.

**TERMS USED FOR MARKETING INTERMEDIARIES**

<table>
<thead>
<tr>
<th>TERM</th>
<th>DESCRIPTION</th>
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<tbody>
<tr>
<td>Middleman</td>
<td>An intermediary between manufacturer and consumer.</td>
</tr>
<tr>
<td>Agent or Broker</td>
<td>Any intermediary with legal authority to act on behalf of the manufacturer.</td>
</tr>
<tr>
<td>Wholesaler</td>
<td>An intermediary who sell to other intermediaries usually to retailers; usually applies to consumer markets.</td>
</tr>
<tr>
<td>Retailer</td>
<td>An intermediary who sells to consumers.</td>
</tr>
<tr>
<td>Distributor</td>
<td>An imprecise term, usually used to describe intermediaries who perform a Variety of distribution functions, including selling, maintaining inventories, Extending credit and so on; a more common term in industrial markets but may also be used to refer to wholesalers.</td>
</tr>
<tr>
<td>Dealer</td>
<td>An even more imprecise term that can mean the same or distributor, retailer, Wholesaler and so forth.</td>
</tr>
</tbody>
</table>

**WHY USE MIDDLEMEN IN MARKETING?**

Whether offline or online, if the consumer cannot find a place where he or she can complete the transaction, then regardless of the quality of the rest of the marketing mix, the marketing will be a disaster and sales will plummet. This is why channel management, especially the management of distribution channels, is crucial to those in marketing. Unlike decisions regarding products, pricing, or promotion, distribution decisions require both intra-organizational as well as inter-organizational skills. The product's path to the market frequently involves interaction with external agencies or intermediaries that bridge the gap between the point of production and the point of sale.

In other way
- Manufacturers don't always need marketing intermediaries to sell their goods to consumer and industrial markets.
- Intermediaries perform certain functions better than most manufacturers. These functions include transportation, storage, selling, advertising, and relationship building.
- Companies often outsource distribution to others.
BROKERS are marketing intermediaries who bring buyers and sellers together and assist in negotiating an exchange, but do not take title to the goods.

Greater efficiency in making goods available to target markets.

Offer the firm more than it can achieve on its own through the intermediaries.

- Contact
- Experience
- Specialization
- Scale of operation

Match supply and Demand.

4.4 HOW IMPORTANT ARE MIDDLEMEN

- We can eliminate middlemen, but we cannot eliminate the essential distribution activities they perform;
- Someone has to perform the various distribution activities - if not a middleman, then the producer or the final customer;
- However, it is often not practical for a producer to deal directly with ultimate consumers (not for the producer and not for the customer!)
- Middlemen may be able to carry out distribution activities better or more cheaply than producers, consumers, or even other middlemen.

The Marketing Middlemen constitute an important link in the channel of distribution. They help the Marketers in selling their products and the consumers in getting the want satisfying products. The production process has now become so complex that a manufacturer is not in a position to make a direct contact with the consumers. The Manufacturer has therefore, required assistance from the middlemen for the delivery of goods to the consumers.

Middlemen made the distribution easy and smooth. Many organised markets are created by them. They create time, place and possession utility. Middlemen concentrate their efforts on marketing and distribution of products. Middlemen are the link between the manufacturer and the ultimate consumer. They direct the flow of goods and services from producers to consumers. Large scale production become possible and profitable because of Marketing Middlemen. They perform the important function of advertising and publicity. They are the demand creators and match the demand with the production. The Marketing Middlemen provide invaluable services towards manufacturer, consumers and the society as a whole.

Wholesale middlemen have been the subject of much criticism. The layman, unfamiliar with methods of distribution, is prone to regard commission merchants, brokers, and jobbers as unnecessary units between the producer and the ultimate consumer, and their profits as one of the principal reasons for the high cost of commodities. A careful survey of modern business methods will prove the facts to be otherwise. Middlemen do make profits. But in return for their profits they render valuable service to both manufacturers and retailers. The efficient operation of a wholesale business generally results in bringing commodities to the retailer at a price lower than when they are sold to him directly by the manufacturer. The degree of involvement of middlemen in the trade channel is usually, implicitly or explicitly,
explained by a functional argument. In other words, the role of middlemen is determined by their economic value for sellers and buyers. In the pre-industrial era the circumstances for involvement of middlemen in (international) trade were very favourable: industry was widely dispersed, the means of communication and transport were poor, and both production and transport were of a seasonal nature. Consequently, the middlemen prospered. However, the actual or perceived cutting out of middlemen has become a common theme in the literature since the industrial revolution.

To explain the involvement of middlemen by means of their function is a complicated matter because they fulfil different needs at the same time. Several recent studies stress the adaptability and creativity of trading firms in escaping the fate of displacement by changing their forms and functions including diversification.

In addition to the degree of uncertainty, the possibility of realising economies of scale is crucial for buyers and sellers in deciding for or against direct trade. In certain circumstances, middlemen are able to reach economies of scale which buyers and sellers cannot create themselves. These economies of scale refer to the process of distribution. Intermediation by the wholesaler can reduce the number of transactions needed in the process of buying and selling. This phenomenon has been called the principle of Minimum Total Transactions or contractual efficiency. Intermediate traders create economies of scale in this way when there are a lot of buyers and sellers who transact relatively small amounts of products. In this case, middlemen have economic value. Similarly, middlemen can increase efficiency in trading by pooling information for both buyers and sellers.

On the other hand, when the number of buyers and sellers is small and the products are traded in relatively large amounts, there is little need for middlemen to reach contractual efficiency. Involvement of middlemen would only increase costs and the buyers and sellers will prefer to transact directly. More than in the case of quality screening, the need for intermediate activities and the capacity of buyers and sellers to reach contractual efficiency are two sides of the same coin, although in theory it is possible that, even when they are small in number, buyers lack capacity to transact directly with sellers.

The Value of Channel Members
Channel intermediaries or middlemen offer contacts, experience, specialization, and economies of scale to organizations that cannot offer these attributes on their own. Marketing channels allows producers to realize the benefits that only larger organizations may be able to support.

Each of the intermediaries provides value. The marketing intermediaries offer value in the form of:

- Information
  Collect and disseminate marketing information about potential and current customers, competitors, and other aspects in the marketing process.
- Promotion
  Develop and share marketing communications designed to inform and attract customers.
- Negotiation
  Reach final agreement on the price and other terms of the transaction.
- Funding
  Acquiring access to funds to finance inventories at different levels of the marketing channel.
Risk taking
Take on risks associated with performing the functions of the channel. Obsolete or damaged inventory, bad debt, and slow payment are a few examples of this risk.

Physical possession
Store and move products from raw materials to the final customers.

Payment options
The buyers' payment of their bills to the sellers through banks and other financial institutions.

Title
Transfer title of ownership from one organization or person to another.

THE VALUE VERSUS THE COST OF MIDDLEMEN

1. Some people think that if we could get rid of intermediaries, we could greatly reduce the cost of the things we buy.
2. The text uses the example of Fiberiffic to illustrate how marketing intermediaries facilitate the movement of goods.
3. Values discussed include: the value of not driving to Michigan to buy a box of cereal, the value of saving time, and effort by not having to drive to a wholesaler's on the outskirts of town.
4. The text emphasizes three basic facts about intermediaries:
   - Intermediaries CAN BE ELIMINATED, BUT THEIR ACTIVITIES CANNOT BE ELIMINATED. Someone else still has to perform the tasks. Today many activities are being performed on the World Wide Web, and intermediaries ARE being eliminated.
   - Intermediaries have survived in the past BECAUSE THEY PERFORM FUNCTIONS MORE EFFECTIVELY AND EFFICIENTLY THAN MOST MANUFACTURERS.
   - Intermediaries ADD COSTS TO PRODUCTS, BUT THESE COSTS ARE OFFSET BY VALUES THEY CREATE.

4.5 HOW MIDDLEMEN ARE CLASSIFIED?

There are a number of ways in which manufacturers and retailers are kept in touch with each other. Consequently, middlemen are classified according to the particular methods of contact which they employ. There are commission merchants, brokers, manufacturers' representatives or sales agents, and jobbers or wholesalers. These names are indicative of the type of work which the middlemen perform. There are, however, various sub-classifications. For instance, brokers are divided into three groups: Buying brokers, selling brokers, and merchandising brokers. Another classification can be set up according to the number and variety of products handled, that is, there are general and specialty jobbers.

The definitions given below must not be too strictly construed. Business has little respect for dictionaries. Changes in local conditions often bring about corresponding changes in the functions which a middleman performs. They do not necessarily effect a change in the name of his service. Many middlemen are designated as brokers, yet they carry stocks of goods and bill in their own name. Many who merely make collections for the manufacturer are listed as commission merchants. This rather loose use of terms need not cause confusion, because the terms are quite elastic. A commission merchant performs one type of service, a
broker another, and a sales-agent still another. If a man who starts in business as a broker really becomes a commission merchant but prefers to call himself by his original designation, nothing can be done about it. It is enough for our purpose to say that the designation is a misnomer.

4.6 VARIOUS FUNCTIONS OF MIDDLEMEN

Marketing intermediaries perform various functions that assist in the operation of the distribution channel. These functions include buying, selling, storing, and transporting. Some intermediaries also sort and grade bulk products. Wholesalers of fresh produce, for example, receive bulk shipments of fruits and vegetables from growers; sort the produce according to a standardized grade, size, color, and degree of ripeness; and then repack it in smaller quantities for their customers, grocery stores, and restaurants. Intermediaries often provide other channel members with important marketing information. Many wholesalers and retailers use scanners and computer technology to measure the movement of producers' goods. By buying a manufacturer's output, intermediaries provide the necessary cash flow for the producer to pay workers and buy new equipment. By selling, they provide consumers and other intermediaries with want-satisfying goods and services. The buying/selling function of intermediaries brings efficiency to the distribution channel.

Intermediaries facilitate the exchange process because they reduce the number of transactions needed between the producer and the consumer. If each of four manufacturers sold directly to four customers, 16 transactions would be required. With an intermediary, the number of transactions is cut to eight. Marketing intermediaries enter a channel of distribution that direct products from producers to ultimate consumers. Sometimes their efficiency wanes and they must be replaced, but someone in the channel must perform the vital distribution functions.

The middlemen perform the following marketing functions which are listed in sequence.
I. Searching out buyers and sellers (contacting & Merchandising), matching goods to the requirements of market.
II. Offering goods in the form of assortments or packages.
III. Persuading and influencing the prospective buyers to favour a certain product and its maker (personal selling/sales promotion).
IV. Implementing pricing policies in such a manner that would be acceptable to buyers and ensure effective distribution.
V. Providing feedback information, marketing intelligence and sales forecasting services for the regions to their suppliers.
VI. Looking after the process of distribution where necessary.
VII. Participating actively in the creation and establishment of a market for a new product.
VIII. Offering pre and after sale services to consumers.
IX. Communicating the use of technique of the product to the users.
X. Offering credit to retailers and consumers.
XI. Risk bearing with reference to stock hoarding/transport.
### MARKETING CHANNEL ACTIVITIES PERFORMED BY INTERMEDIARIES

**FIGURE:**

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<thead>
<tr>
<th>CATEGORY OF MARKETING ACTIVITIES</th>
<th>POSSIBLE ACTIVITIES REQUIRED</th>
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<tr>
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<td>Marketing management</td>
<td>Establish strategic plans for developing customer relationships and organizational productivity.</td>
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<td>Choose product assortments that match the needs of customers. Cooperate with channel members to develop partnerships.</td>
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<tr>
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The functions performed by marketing intermediaries concurrently satisfy the needs of all channel members in several ways. The most basic way that market needs can be assessed and then satisfied centres on the role channel intermediaries can perform in helping channel members reach the goals mapped out in their strategic plans. Because they link manufacturers to their final customers, channel intermediaries are instrumental in aligning all organizations' missions with the market(s) they serve. Channel intermediaries foster relationship-building activities and are indispensable proponents of the relationship marketing concept in the marketing channel. Channels of distribution are not all there is to marketing, but without them all the behaviours and activities known as marketing become impossible. Channels of distribution represent the final frontier within which most sustainable strategic marketing advantages can be achieved. Channels of distribution are the instruments through which organizational missions meet come face to face with the marketplace. Strategic success or failure will take place there.

### 4.7 ADVANTAGES & DISADVANTAGES OF INCLUDING INTERMEDIARIES IN THE DISTRIBUTION CHANNEL

**ADVANTAGES OF USING A MIDDLEMAN**

The advantages of using MIDDLEMEN stem from the core economics of supply-chain management: market coverage, customer contacts, lower costs, systematic cash flow, etc. The MIDDLEMAN adds value to the marketing of the product by bringing in specialization, marketing knowledge, capacity to segment the market, and selling skills that allow the marketer to implement marketing strategies effectively. MIDDLEMEN providing logistic support increase convenience to both the producer and the consumer by offering effective delivery and pre- and post-purchase customer service as well as facilitating manufacturer services, making them indispensable to most mid- and small-
scale producers.

BENEFITS OF MIDDLEMEN

If selling from the manufacturer to the consumer were always the most efficient way, there would be no need for channels of distribution. Middlemen or Intermediaries, however, provide several benefits to both manufacturers and consumers: improved efficiency, a better assortment of products, routinization of transactions, and easier searching for goods as well as customers. The improved efficiency that results from adding intermediaries in the channels of distribution can easily be grasped with the help of a few examples. In the first example there are 5 manufacturers and 20 retailers. If each manufacturer sells directly to each retailer, there are 100 contact lines—one line from each manufacturer to each retailer. The complexity of this distribution arrangement can be reduced by adding wholesalers as intermediaries between manufacturers and retailers. If a single wholesaler serves as the intermediary, the number of contacts is reduced from 100 to 25—5 contact lines between the manufacturers and the wholesaler, and 20 contact lines between the wholesaler and the retailers. Reducing the number of necessary contacts brings more efficiency into the distribution system by eliminating duplicate efforts in ordering, processing, shipping, etc.

In terms of efficiency there is an effect of diminishing returns as more intermediaries are added to the channels of distribution. If, in the example above, there were 3 wholesalers instead of only 1, the number of essential contacts increases to 75: 15 contacts between 5 manufacturers and three wholesalers, plus 60 contacts between 3 wholesalers and 20 retailers. Of course this example assumes that each retailer would order from each wholesaler and that each manufacturer would supply each wholesaler. In fact geographic and other constraints might eliminate some lines of contact, making the channels of distribution more efficient.

Middlemen or Intermediaries provide a second benefit by bridging the gap between the assortment of goods and services generated by producers and those in demand from consumers. Manufacturers typically produce many similar products, while consumers want small quantities of many different products. In order to smooth the flow of goods and services, intermediaries perform such functions as sorting, accumulation, allocation, and creating assortments. In sorting, intermediaries take a supply of different items and sort them into similar groupings, as exemplified by graded agricultural products. Accumulation means that intermediaries bring together items from a number of different sources to create a larger supply for their customers. Intermediaries allocate products by breaking down a homogeneous supply into smaller units for resale. Finally, they build up an assortment of products to give their customers a wider selection.

A third benefit provided by middlemen or intermediaries is that they help reduce the cost of distribution by making transactions routine. Exchange relationships can be standardized in terms of lot size, frequency of delivery and payment, and communications. Seller and buyer no longer have to bargain over every transaction. As transactions become more routine, the costs associated with those transactions are reduced.

The use of middlemen or intermediaries also aids the search processes of both buyers and sellers. Producers are searching to determine their customers' needs, while customers are searching for certain products and services. A degree of uncertainty in both search processes can be reduced by using channels of distribution. For example, consumers are more likely to find what they are looking for when they shop at wholesale or retail
institutions organized by separate lines of trade, such as grocery, hardware, and clothing stores. In addition producers can make some of their commonly used products more widely available by placing them in many different retail outlets, so that consumers are more likely to find them at the right time.

Through their contacts, experience, specialization, and scale of operation, intermediaries usually offer the firm more than it can achieve on its own; Intermediaries provide economies by reducing the number of transactions that must be conducted to move products between producers and consumers.

In a distribution channel, intermediaries buy the large quantities of many producers and break them down into the smaller quantities and broader assortments wanted by consumers. There are a wide variety of possible distribution channels. Intermediaries, which help the producing company get their product to the end consumer includes: sales agents, retailers, wholesalers, selling agents, and maybe even direct mail. Intermediaries are used as go-betweens because the manufacturing company may not be familiar with the market situation in various areas of the country as they would like to be.

DISADVANTAGES OF USING A MIDDLEMAN

Manufacturers quite often see intermediaries as parasites rather than assets. The disadvantages of using a MIDDLEMAN stem from psychological apprehensions, market antecedents which have created such apprehensions, and lack of managerial skills or resources that are sufficient to balance and manage the intermediary. Fears, which may come true if the producer fails to manage the MIDDLEMAN or intermediary, might include:

✓ fear of losing control  
✓ fear of losing customer contact  
✓ fear of losing customer ownership  
✓ fear of opportunistic behavior  
✓ fear of inadequate communication  
✓ fear that the objectives of the intermediary will conflict with those of the producer  
✓ fear that the intermediary will extract rather than add to value  
✓ fear of poor market management

Furthermore, an intermediary may have many of the same fears (except for the last two on the list). These fears often undermine the working relationship between a producer and an intermediary and keep them from effectively utilizing each other's resources and maximizing the potential of the marketing mix.

DISADVANTAGES

➢ Revenue loss

The manufacturer sells his product to the intermediaries at costs lower than the price at which these middlemen sell to the final customers. Therefore the manufacturer goes for a loss in revenue. The intermediaries would never offer their services to the manufacturer unless they made a profit out of selling his products. They are either made a direct payment by the manufacturer, for instance shipping costs or as in the case of retailers by selling the product at costs higher than the price at which the product was bought from the
manufacturer (also known as mark up). The manufacturer could have sold at this final price and made a greater profit if he had been managing the distribution all by himself.

➤ Loss of Communication Control
Along with loss over the revenue the manufacturer also loses control over what message is being conveyed to the final customers. The reseller may engage in personal selling in order to increase the product sale and communicate about the product to his customers. He might exaggerate about the benefits of the product this may lead to miscommunication problems with end users. The marketer may provide training to the salespersons of retail outlets but on the whole he has no control on the final message conveyed.

➤ Loss of Product Importance
The importance given to a manufacturer's product by the members of the distribution channel is not under the manufacturer’s control. In various cases like transportation delays the product loses its importance in the channel and the sales suffer. Similarly a competitor’s product may enjoy greater importance as the channel members might be getting a higher promotional incentive.

If a Middleman is Needed, It's Better to Use an Middleman

Working with an intermediary is essentially a management issue. Effective intermediaries add great value to marketing, and it is necessary to create constructive and positive relationships with intermediaries through leadership and strategy. In addition, proper products, pricing, and promotion can allow the producer to remain in control of supply and demand. Customer contact and ownership can be built and retained through various marketing strategies, including promotions and market research, that help to identify the consumer. If closer examination of a distribution channel reveals that the use of an intermediary is necessary, it is better to use an intermediary than to inhibit marketing. The old principles of specialization and division of labor still matter in the marketplace. If the marketer lacks adequate resources, it is better to use a suitable intermediary and leave specialized tasks to specialists.

MOTIVATING OF MIDDLEMEN

Motivational techniques may be grouped into five categories:
(1) Financial rewards
(2) Psychological rewards
(3) Communications
(4) Company support, and
(5) Corporate rapport

Constant training, supervision & encouragement.
Producers can draw on the following types of power to elicit cooperation:
➤ Coercive power. Manufacturer threatens to withdraw a resource or terminate a relationship if intermediaries fail to cooperate. This power can be effective, but its exercise produces resentment and can lead the intermediaries -to organize countervailing power.
Reward power. Manufacturer offers intermediaries extra benefits for performing specific acts. Reward power typically produces better results than coercive power, but can be overrated. The intermediaries may come to expect a reward every time the manufacturer wants a certain behavior to occur.

Legitimate power. Manufacturer requests a behavior that is warranted by the contract. As long as the intermediaries view the manufacturer as a legitimate leader, legitimate power works.

Expert power. Manufacturer has special knowledge that the intermediaries value. Once the expertise is passed on to the intermediaries, however, this power weakens. The manufacturer must continue to develop new expertise so that the intermediaries will want to continue cooperating.

Referent power. Intermediaries are proud to be identified with the manufacturer. The manufacturer is so highly respected that intermediaries are proud to be associated with it. Companies such as IBM, Caterpillar, and Hewlett-Packard have high referent power.

Imagine these three scenarios:
You are a producer of 'Grand Pens' a brand of fountain pens. A customer seeks advice from a pen shop on which pen to buy and the retailer strongly recommends yours. A customer asks a retailer, who stocks your pen, for another brand called 'Bad Pens'. The retailer recommends and offers your pen as superior.

A retailer actively solicits business for you by asking customers buying other products to come and have a look at the exquisite 'Grand Pen'. This retailer is obviously very motivated.

'Mindshare', as it is called in the USA, has to do with how important your product is in the distributor's mind relative to the other lines they carry. Winning the battle for the distributor's share of mind can be more important than many other marketing strategies. It applies in industrial markets and consumer markets where intermediaries play important roles in the distribution channel.

In reality, maintaining continually high levels of motivation among intermediaries presents a challenge. It requires a reasonable quality product, creative promotions, product training, joint visits between producer and distributor, co-operative advertising, merchandising and display.

Most of these apply to agents as much as distributors and retailers.
Keeping the intermediary stimulated is important. Positive motivators, like sales contests are preferred to negative motivators like sanctions such as reduced discounts and the threat of terminating the relationship.

A positive reward works better than a negative punishment. Ideally there should be a shared sense of responsibility - a partnership - a strategic partnership. The supplier and intermediary are there to help each other. Vertical Marketing Systems are a good example. Clear communications, covering sales goals, review meetings, reporting procedures, marketing strategy, training, market information required, suggestions for improvements, all help. Regular contact through visits, review meetings, dinners, competitions, newsletters, thank you letters, congratulatory awards all help to keep everyone working closely together.
These are all non-financial incentives which provide a form of psychic income as opposed to financial income. That's not to say that financial incentives aren't useful motivators, it just means that there are other motivations there too. In fact the money spent on financial incentives is often spent more effectively when the sales person is rewarded with a plaque, a gold pen or a holiday in the Bahamas rather than just the cash which tends to get soaked up and lost in a sea of ordinary household daily expenditure. Non cash rewards appeal to the higher levels of Maslow's Hierarchy of Needs - belonging, esteem and self actualization. Despite this, conflict can occur when too many middlemen are appointed within close proximity of each other, or the producer engages in a multiple channel strategy of direct marketing as well as marketing through intermediaries. Carefully motivating Middlemen is vital if goods are to flow smoothly through the channel and reach satisfied customers.

4.8 MIDDLEMEN POWER

Increasing market globalization and new technology proliferation have radically changed the grounds for competition at the start of the new millennium. Morgan and Hunt (1994) argue that there has been a major directional change in both marketing theory and practice over the last ten years and point to a number of studies which assume a shift away from “transaction-oriented marketing” towards “relationship-oriented marketing”. The relationship marketing creates loyal customers who are more profitable than transactional customers. Heide (1994) further argues that relationship management is becoming a central research paradigm in the literature on marketing channels. Many producers do not sell products or services directly to consumers and instead use marketing middlemen to execute an assortment of necessary functions to get the product to the final user. Hence, the marketing middlemen of the distribution channels are contributing remarkably to delivers the products from manufacturer to end users. To deliver the product from manufacturer to consumer efficiently and effectively, channel members have to bear different responsibilities and to perform different roles. Though channel members’ responsibilities and duties at the distribution channel are dissimilar to each other, the mutual understanding between the channel members has affected to build the strong relationship to uplift the performance of the channel. Recent research on distributive channels has indicated that conduct of channel members as well as performance of channels is affected considerably by the behavioural interactions among channel members and specifically by their power relations.

The concept of power is considered central in understanding the means by which middleman can change or modify the behavior of another middleman within its channel of distribution. More frequently, all western researchers have accepted that one channel members’ power over another’s desired from another’s dependence on the source. Therefore, according to the western theorists, power and dependence has an inverse relationship. Further, Emerson (1962) viewed power as function of dependence. Hence, the channel members’ dependence within the distribution channel is important element to study the channel members’ power. However, a reversed relationship between dependence and power may exist. Collectivistic social system consists of turnaround relationship between power and dependence. Enormous literature has accumulated on a few robust
national culture dimensions, particularly on the dimension of individualism and collectivism. Individualism has been influenced to powerless people to give their effort to balance the power with powerful figures in the society by using the existing mechanism and connections in the society. In contrast, collectivism social system persuades for interdependence and shares the existing resources among channel members. Distribution channel members within strong collectivistic social systems perform on their national culture, to inbuilt the relationship among channel members and to achieve their goals.

Marketing channels essentially consist of interacting groups of interdependent organizational entities enjoying varying degrees of autonomy from each other. Hence, distribution channel model must focus on explicit behavioural patterns that will manifest in greater trust and cooperation between the channel members to achieve efficiency and effectiveness in operation. The importance of trust and cooperation in facilitating channel member variation finds moderate support in the present literature. Trust represents a component of integrated knowledge of relationships variables and it involves a belief that a relationship partner will act in the best interests of other partner. Channel literature considers the corporation as a shared belief and value with the norm and code that guide and regulate people’s behaviour within the distribution channel. Hence, this study shows how channel members’ power and dependence is related to cooperation and trust among channel members and how cooperation and trust impact on the distribution chains’ performance at the strong collectivistic culture.

4.9 TERMS AND RESPONSIBILITIES OF MIDDLEMEN

Price policy— The middlemen have to ensure that everyone involved gets a fair and equitable deal.
Payment terms—The manufacturing firm stipulates the mode and terms of payment.
Returns policy—This indicates the warranty that the manufacturer extends to middleman.
Territorial rights—The territorial jurisdictions should be spelt out to avoid territory jumping.
Mutual services and responsibilities—It should be spelt out particularly in case of franchised and exclusive agency channels.

DESIARIBILITY OF ELIMINATING OF MIDDLEMEN

We have already learnt the role of middlemen above, which indicates the significance of middlemen in the channel of distribution. Indeed without the existence of middlemen goods produced on a mass scale could not have reached the consumers at right time and place. However the existence of middlemen may lead to several short comings. The elimination of middlemen is based on the following grounds.

1. Excessive number : Often there are too many middlemen between the manufacturers and consumers. As every middleman charges some commission or profit, the ultimate consumer has to pay a very high price for goods. They are social parasites thriving at the cost of the consumer and their ultimate elimination will reduce prices and burden on consumers.
II. **Superfluous**: Most middlemen do not render any useful service in lieu of profit or commission. They act as only transfer agents and unnecessarily cause delay in the flow of goods. Their elimination will result in quick and smooth flow of goods.

III. **Limited risk taking**: Middlemen do not bear the producers' risk such as loss due to strikes, lockouts, depression and change in fashions and habits, etc.

IV. **Anti-social activities**: They take undue advantage of adverse conditions in business. Some businessmen (middlemen) indulge in anti-social activities like hoarding and adulteration to earn huge amounts to profits.

V. **Limiting consumers' choice**: The middlemen often promote products which are inferior in quality and get high margins of profit. Thus, they exploit consumers and limit their choice.

**SHOULD A BUSINESS AVOID INTERMEDIARIES AND SELL DIRECT?**

A key decision a business has to make about distribution is whether to sell "direct". Direct marketing means selling products by dealing directly with consumers rather than through intermediaries.

Traditional methods include mail order, direct-mail selling, cold calling, telephone selling, and door-to-door calling. More recently telemarketing, direct radio selling, magazine and TV advertising, and of course e-commerce have become significant methods of reaching customers directly.

The main advantages of selling direct are that there is no need to share profit margins and the producer has complete control over the sales process. Products are not sold alongside those of competitors either.

There may also be specific market factors that encourage direct selling:
- There may be a need for an expert sales force, to demonstrate products, provide detailed pre-sale information and after-sales service
- Retailers, distributors, dealers and other intermediaries may be unwilling to sell the product
- Existing distribution channels may be owned by, or linked to, competing producers (making it hard to obtain distribution by any other means than direct)

However, there are significant costs associated with selling direct which may be higher than the costs associated with using an intermediary to generate the same level of sales.

There are several potential advantages of using an intermediary:
- More efficient distribution logistics
- Overall costs (even taking into account the intermediaries' margin or commission) may be lower
- Consumers may expect choice (i.e. the products and brands of many producers) at the point of sale
- Producers may not have sufficient resources or expertise to sell direct

Distribution channels are composed of marketing intermediaries, the persons or firms that operate between the producer and the consumer or industrial user. The two main categories of marketing intermediaries are wholesalers and retailers. Wholesaling intermediaries are people and firms that sell primarily to retailers and other wholesalers or industrial users. They do not sell significant amounts to ultimate consumers. Sysco is a food-service wholesaler that buys more than 100,000 food products from manufacturers and
resells them to some 150,000 restaurants, hotels, schools, hospitals, and other institutions. Sysco also distributes frozen food products to supermarkets, other retail stores, and military commissaries. Retailers, by contrast, are persons or firms that sell goods and services to individuals for their own use rather than for resale. Retailers are the marketing intermediaries that consumers are most familiar with. The typical consumer buys food, clothing, personal-care items, furniture, and appliances from some type of retailer.

5. WHOLESALING

With your wholesale business, there isn’t one way, a right way, or even a best way of distributing your products. Different wholesales businesses have adapted one or more the methods below to successfully market their products where their peers failed before them. While some of the channels may lend themselves to your product better than others, the truth is you have to choose the best method for your own unique business.

5.1 INTRODUCTION

Wholesaling, jobbing, or distributing is defined as the sale of goods or merchandise to retailers, to industrial, commercial, institutional, or other professional business users, or to other wholesalers and related subordinated services.

Wholesaling is a distribution channel function where one organization buys products from supplying firms with the primary intention of redistributing to other organizations (but, in general, not to the final consumer). A wholesaler is an organization providing the necessary means to:

1) Allow suppliers (e.g., manufacturers) to reach organizational buyers (e.g., retailers, business buyers), and 2) allow certain business buyers to purchase products which they may not be able to otherwise purchase.

Wholesaling is the process of selling goods and services to a client who will in turn resell those products to other consumers. Wholesalers can include retailers, organizations who market services to members, and companies that sell the purchased products under their own brand. Generally, wholesaling involves providing the customer with a discounted rate per item in exchange for buying the item in large amounts. While wholesaling of goods used to require that the wholesaler and the wholesale client be in relatively close proximity to one another, that is no longer the case. Many wholesale companies ship goods and supply services to businesses located around the world. This has made it possible for entrepreneurs to market all types of goods and services to a consumer base that is virtually unlimited.

Wholesaling is an important aspect of a company’s marketing-channel strategy because it essentially involves the planning associated with industrial customers that need to distribute their products to manufacturers, retailers, government agencies, schools, hospitals, and other wholesalers.

Wholesaling offers a number of benefits to a customer. First, the customer does not have to maintain manufacturing facilities to produce goods or services that are offered to the general public for sale. This can make it possible for the wholesale customer to maintain a relatively low overhead in the market, which in turn increases the customer’s ability to be
competitive with larger companies. The wholesale client also saves money in terms of employee wages and benefits, since the company can operate with a smaller workforce. Wholesaling refers to all of the transactions in which products are bought for resale, for the making of other products, or for general business operations. A wholesaler is the individual or organization that facilitates these wholesaling activities by buying products and reselling them to yet another reseller, government agency, or an institutional user.

According to the United Nations Statistics Division, "wholesale" is the resale (sale without transformation) of new and used goods to retailers, to industrial, commercial, institutional or professional users, or to other wholesalers, or involves acting as an agent or broker in buying merchandise for, or selling merchandise to, such persons or companies. Wholesalers frequently physically assemble, sort and grade goods in large lots, break bulk, repack and redistribute in smaller lots.

According to William J. Stanton, "Wholesale trade includes the sale and all activities directly incidental to the sale of products or services to those who are buying for the purpose of resale or business use."

5.2 WHOLESALE SUPPLIES

The term "Wholesaler" does not have a specific meaning, but it is also used generically for several levels of companies from which we can buy wholesale supplies:

MANUFACTURER- The prime source for buying wholesale, the manufacturer will usually offer the lowest wholesale price for its own product line. The drawback is that sometimes the minimum order requirements are too high for a small business that is just starting out. It may also take long to receive our merchandise when we order from the manufacturer.

WHOLESALE- This type of company buys in very large quantities directly from manufacturer. Wholesalers are usually able to obtain added quantity discounts and price concessions for high volume purchasing. Wholesalers usually offer low minimum order requirements, small quantity packaging per item, and quick turnaround time for shipments. This serves as an advantage to small business operators.

DISTRIBUTOR- Distributors act a lot like Wholesalers. In some cases, they may be the distribution division of a major manufacturer, set up to be the supply channel for its products.

SALES REPRESENTATIVE- Sometimes called a manufacturer's representative, a sales representative is usually an independent sales person (sometimes part of a representation company) who represents several manufacturers in a specific territory but gives the impression of working exclusively for each manufacturer.

Each of these wholesale channels serves a useful purpose. Most business will find that they'll be using a combination of them, depending on the type and quantity of supplies that they need to buy.

The wholesale sector of various sizes and ranges. This is because the wholesale products that are not limited to a certain point, but apply to all products sold worldwide. You sell one
and all sorts of good. Companies that manufacture products that can buy their raw materials wholesalers, for example, a company can buy the production of cotton textiles from a wholesaler, and another color. Many times, buying, schools, universities, offices and items that are found in abundance in the normal course of its operation, such as detention, used furniture, and so on. Similarly, a department store shopping for clothes, dishes and other objects in the wholesale and retail resale. Large customers can sell a certain point, a manufacturer or a particular item from various manufacturers. You can also sell items other than a manufacturer and various items from different manufacturers. Some wholesalers sell only a limited range of products, such as very specialized machine tools, while others sell a wide product range, as all the essential equipment to open a new store, including shelving, lamps, wallpaper, flooring, signage cash registers, accounting Ledger, and maybe some merchandise for resale.

Wholesale firms play an important role in improving the economy. Act as mediator in the relationship between production of the party and the end customer. The producers sell their products to wholesalers who in turn sell to retailers. To load the manufacturer does not need contact with various customers to keep, this is provided by the merchants. They provide services such Customer service, order management and technical assistance, and then support producers. Because they are wholesalers, have mostly warehouses and stores where they can keep their products until the customer buys. Because of these stores, manufacturers can produce their goods in large quantities and have the wholesalers, store and can buy bulk lots as necessary. That is, only allowed to store goods that neither manufacturers nor distributors store until the consumer needs it. They fill numerous positions in the economy. They offer companies a source close to goods of many manufacturers, providing manufacturers with a manageable number of customers, while enabling their products to a huge number of users reaching.

Wholesaling usually involves sales in quantity and at a cost significantly lower than the average retail price. It has become an important step in the supply chain since the introduction of mass production and mass marketing techniques in the 19th century. Without wholesalers, manufacturers would have to market their products directly to a huge number of customers at high unit costs, and buyers would have to deal with an inconveniently large number of suppliers. Going with a wholesaling solution also allows the customer to secure goods and services for resale at a lower unit price. Assuming the terms for payment are agreeable, this means that a wholesaler can resell the products at a reasonable profit and use payments from consumers to pay the wholesale provider in a relatively short period of time. This has the advantage of not tying up the assets of the wholesaler in covering Accounts Payable items, since the turnaround on the Receivables is adequate to handle the cost of securing products for resale. Wholesaling usually involves selling products in bulk. This means that more products are moved out quickly and do not languish in warehouses. As a result, the wholesaler can maintain a smaller inventory and incur fewer taxes than would be possible otherwise. There are a number of different wholesaling jobs available in many different industries. The telecommunications field is full of wholesalers who purchase long distance services, Internet access, and teleconferencing services from major providers and re-brand those services as their own. In like manner, retail and electrical wholesaling is not uncommon at all. The advent of the Internet has led to the development of virtual wholesaling opportunities, where
businesses offer virtual products that were purchased from a supplier and re-branded for sale as a distinct product line.

While many large retailers and even manufacturers have centralized facilities and carry out the same tasks as wholesalers, we do not classify these as wholesalers since these relationships only involve one other party, the buyer. Thus, a distinguishing characteristic of wholesalers is they offer distribution activities for both a supplying party and for a purchasing party. For our discussion of wholesalers we will primarily focus on wholesalers who sell to other resellers such as retailers. There are three major categories of wholesalers. Merchant wholesalers, the most important category, are independent businesses that buy merchandise in great quantities from manufacturers and resell it to retailers. Manufacturers' sales branches are businesses founded by manufacturers to sell directly to retailers. Merchandise agents and brokers represent various manufacturers; they usually do not buy the merchandise they handle but instead arrange for shelf space and the display of merchandise. So-called warehouse stores sell large quantities of goods at near-wholesale prices.

5.3 WHOLESALING ACTIVITIES

The typical wholesaling activities include buying, selling, transporting, storing and financing. Specifically, Wholesaler accumulates the products of many manufacturers, develop appropriate assortment for their customers and distribute the products to them. Wholesale businesses may finance the inventories of manufacturers until they can be sold and may extend credit to retailers to enable them to make purchases. Wholesalers also assist manufacturers in determining needs of retailers and final consumers and provide market and product information to retailers. They help collect and analyze information on sales, costs, changes in demand and inventory levels. Some wholesalers support the promotional efforts of manufacturers and retailers. Most wholesalers purchase products from producers and manufacturers and then resell them to their customers. In that way, they are assuming risk by investing their money. If the products are damaged or cannot be sold at the desired price, the wholesaler loses money.

5.4 WHO NEEDS WHOLESALING?

Many marketing functions may occur in the exchange between a producer and consumers. They can be shifted and shared, but they cannot be eliminated. In many cases, producers or consumers are unwilling or unable to perform some of the functions, but other organization can complete those activities more effectively, in less time, or at a lower cost. In those cases, an organization is likely to become part of the channel of distribution.

A traditional indirect channel of distribution for consumer products would involve a producer, a retailer and the final consumer. However, the producers may find that there are so many retailers needed to reach all of the consumers in its target markets that it cannot serve all of the retailers effectively. To obtain all of the products it wants to sell, a retailer may see the need to work with such a large number of producers that it is almost impossible to work well with each one. In those cases, the traditional channel expands to add a Wholesaler.
5.5 BENEFITS OF WHOLESALING-

Wholesalers are companies that assist with distribution activities between businesses. They do not work with final consumers in any significant way. Their role is to provide needed marketing functions as products and services move through the channel of distribution between producers and businesses.

Wholesalers provide important marketing services for the channels in which they participate. Some businesses are unable to complete the marketing tasks required because of the cost or specialized resources or skills needed. Others choose not to do some tasks because they want to focus on their production or selling activities.

Wholesalers may provide one or more of the needed marketing activities better or at a lower cost. For example, a small retailer is not able to purchase most products in large quantities. A wholesaler combines the orders of several small retailers and purchases in efficient quantities. Shipments for businesses in the same location can be combined, allowing less costly transportation methods to be utilized.

In the same way, a manufacturer usually tries to produce products throughout the year, but consumer demand for the products may be seasonal. The manufacturer may not have adequate facilities to store the products until they can be sold to retailers. The manufacturer may use wholesalers who specialize in storage and inventory management, allowing it to focus on production rather than storage.

5.6 WHOLESALER

The Wholesaler man basically act as a middleman, buying goods from manufacturers in large quantities at a discount, and distributing them to retailers selling goods for a high prices. Most manufacturers only supply minimum full pallet loads, but prefer it if the distributors buy a whole container at a time, so the cycle is Manufacturers, Wholesaler, Retailers then Customers. Wholesalers are intermediaries or middlemen who buy products from manufacturers and resell them to the retailers. They take the same types of financial risks as retailers, since they purchase the products (thereby taking legal responsibility for them), keep them in inventory until they are resold to retailers, and may arrange for shipment to those retailers.

Marketers are not able to handle all distribution activities on their own. Instead, to get products into the hands of customers often requires the marketer to seek assistance from third-party service firms. In addition to retailers, marketers should be aware of other resellers whose expertise in certain facets of distribution can prove quite beneficial. Additionally, other activities associated with moving products must also be well understood and often requires the help of others. Now we examine another reselling group - wholesalers - and see how they come into play when a marketer attempts to reach the final customer. We will show that wholesalers exist in many formats, affect a wide range of industries, and offer different sets of features and benefits depending on the markets they serve.

A wholesaler usually works with the manufacturer to provide quantities of goods to other retail outlets or businesses. Often, they may also be the distributor of the product as well. A wholesaler is usually only interested in volume sales and does not sell single or low-quantity lots of the products. In situations such as this the manufacturer sells only to its wholesalers, who in turn sell to businesses or distributors. The manufacturer may be the wholesaler in
some cases they usually handle all logistics involved in getting the merchandise to your location, as well as billing for the products and delivery.

According to Cundiff and still, "Wholesalers buy and resell merchandise to retailers and other merchants and to industrial, institutional and commercial users, but do not sell in significant amount to ultimate consumers."

According to Noel Branton, "The wholesaler is a trader whose business is the supply of goods of a certain commodity class to the trader. He buys from the producers in large quantities with the object of reselling to retailers or to other trader in small quantities."

According to Evelyn Thomas, "A true wholesaler is himself neither a manufacturer nor a retailer but acts as a link between the two."

Thus a Wholesaler provides an important link between the manufacturer and the retailers. He takes title of the products he handles and assumes marketing risks in the process of distribution of products. He purchases in bulk and sells in small lots to the retailers or industrial users.

A distributor or wholesaler maintains a local stock of product and provides either a counter for customer pickup or frequent delivery services to its customers. While most distributors or wholesalers have a sales organization, it is usually dedicated to finding customers and to maintaining relationships (Customer Identification and Acquisition). Some distributors have technically trained staff who can assist in Product/Customer Matching, but wholesalers rarely do. Wholesalers often have counter staff who can help the customer complete an order and who may answer some product related questions; few provide much real sales assistance. In addition, distributors and wholesalers will generally provide credit lines to their customers (Finance). This is a critical element in the overall value provided by distributors and wholesalers because their customers are often small, undercapitalized firms who depend on free trade credit to finance their businesses. Deciding how much credit to provide and how long to ride with a troubled customer are functions where the local knowledge and business connections possessed by distributors and wholesalers create a strong basis for success. Many distributors and wholesalers have discovered that they are acting more like a bank than a sales or logistics organization.

The terms Distributor and Wholealers are used synonymously in many industries. In most circumstances there are subtle differences between distributors and wholesalers. As used in this paper, distributors do not carry competing brands and wholesalers do. For example, a Coca Cola bottler is a distributor because it handles only Coca Cola beverages, products approved by Coca Cola, and supporting products. A liquor wholesaler will carry a complete range of products, including multiple lines of wines and spirits.

5.7 CHARACTERISTICS OF WHOLESALER

The followings are the characteristics of wholesaler:

- Wholesalers buy goods directly from producers or manufacturers.
- Wholesalers buy goods in large quantities and sells in relatively smaller quantities.
- They sell different varieties of a particular line of product. For example, a wholesaler who deals with paper is expected to keep all varieties of paper, cardboard, card, etc.
They may employ a number of agents or workers for distribution of products.

Wholesalers need large amount of capital to be invested in his business.

They generally provides credit facility to retailers.

He also provides financial assistance to the producers or manufacturers.

In a city or town they are normally seen to be located in one particular area of the market. For example, you can find cloth merchants in one area, book publishers and sellers in one area; furniture dealers in one area etc.

Wholesalers occupies the first and very important position in the channel of distribution.

Wholesalers generally purchase merchandise direct from the manufacturer in large quantities and sell them to the retailers in small quantities. Generally, Wholesalers are financially sound. They purchase goods in cash from the manufacturer and sell them to retailers on credit.

Wholesaler’s profit margin is very small so that they can maximize their sales volume to earn maximum profit.

Wholesalers generally deal in limited product items or product lines.

Wholesalers provide ready delivery of products by having warehousing and transportation facilities.

**TYPES OF WHOLESALERS**

Wholesaling includes all activities required to sell goods or services to other firms, either for resale or for business use, usually in bulk quantities and at lower-than-retail prices. Wholesalers, also called distributors, are independent merchants operating any number of wholesale establishments. Wholesalers generally fall into three categories: Merchant Wholesaler, Commission merchant, agents & brokers and Manufacturer’s sales branches and sales offices of these Merchant Wholesalers constitute the largest portion.
MERCHANT WHOLESALERS-

A Merchant wholesaler is a middleman that purchases goods in large quantities and then sells them to other wholesalers or retailers and to institutional forms, government, professional or industrial users. Merchant wholesalers usually operate one or more warehouses at which they receive, take title to, and store goods. These wholesalers are sometimes called distributors or jobbers.

Merchant wholesalers are independent intermediaries that buy goods from manufacturers and sell to retailers and other B2B customers. Because merchant wholesalers take title to the goods, they assume certain risks and can suffer losses if products get damaged, become out-of-date or obsolete, are stolen, or just don’t sell. At the same time, because they own the products, they are free to develop their own marketing strategies including setting prices.

Merchant wholesalers, also known as jobbers, distributors, or supply houses, are independently owned and operated organizations that acquire title ownership of the goods that they handle. Merchant Wholesalers may be classified as Full service or Limited service wholesalers depending on the number of services they provide. A Full service wholesaler performs the entire range of wholesalers functions. These functions include delivering goods, supplying warehousing, arranging for credit, supporting promotional activities and providing general customer assistance. In contrast to a Full service wholesaler A Limited service Wholesaler assumes responsibility for a few wholesale services only. Other marketing tasks are left to other channel members or consumers. This category include cash and carry wholesalers, truck wholesalers etc.

FULL-SERVICE WHOLESALERS

Full-service wholesalers usually handle larger sales volumes; they may perform a broad range of services for their customers, such as stocking inventories, operating warehouses, supplying credit, employing salespeople to assist customers, and delivering goods to customers. General-line wholesalers carry a wide variety of merchandise, such as groceries; specialty wholesalers, on the other hand, deal with a narrow line of goods, such as coffee and tea or seafood.

LIMITED-SERVICE WHOLESALERS

Limited-service wholesalers, who offer fewer services to their customers and suppliers, emerged in order to reduce the costs of service. There are several types of limited-service wholesalers. Cash-and-carry wholesalers usually handle a limited line of fast-moving merchandise, selling to smaller retailers on a cash-only basis and not delivering goods. Truck wholesalers or jobbers sell and deliver directly from their vehicles, often for cash. They carry a limited line of semi perishables such as milk, bread, and snack foods. Drop shippers do not carry inventory or handle the merchandise. Operating primarily in bulk industries such as lumber, coal, and heavy equipment, they take orders but have manufacturers ship merchandise directly to final consumers. Rack jobbers, who handle nonfood lines such as housewares or personal goods, primarily serve drug and grocery retailers. Rack jobbers typically perform such functions as delivery, shelving, inventory stacking, and financing.
Producers' cooperatives—owned by their members, who are farmers—assemble farm produce to be sold in local markets and share profits at the end of the year.

In less-developed countries, wholesalers are often the sole or primary means of trade; they are the main elements in the distribution systems of many countries in Latin America, East Asia, and Africa. In such countries the business activities of wholesalers may expand to include manufacturing and retailing, or they may branch out into non-distributive ventures such as real estate, finance, or transportation. Until the late 1950s, Japan was dominated by wholesaling. Even relatively large manufacturers and retailers relied principally on wholesalers as their intermediaries. However, in the late 20th century, Japanese wholesalers declined in importance. Even in the most highly industrialized countries, however, wholesalers remain essential to the operations of significant numbers of small retailers.

COMMISSION MERCHANTS, AGENTS AND BROKERS—

Commission merchants, agents and brokers are functional middlemen. Functional middlemen do not take title to products. They perform a small number of marketing activities and are paid a commission that is a percentage of sales prices. Commission merchant is a middleman that carries merchandise and negotiates sales for manufacturers. Agents and brokers provide services in exchange for commissions. They may or may not take possession of the product, but they never take title; that is, they do not accept legal ownership of the product. Agents normally represent buyers or sellers on an ongoing basis, whereas brokers are employed by clients for a short period of time. Merchandise agents or brokers include manufacturers' agents (manufacturers' reps), selling agents, commission merchants, and merchandise brokers.

Agents a middleman that expedites exchanges, represents a buyer or a seller and often is hired permanently on a commission basis. Broker is a middleman that specializes in a particular commodity, represents either a buyer or seller and is likely to be hired on a temporary basis.

Manufacturers may use brokers and agents, who do not take title possession of the goods, in marketing their products. Brokers and agents typically perform only a few of the marketing flows, and their main function is to ease buying and selling—that is, to bring buyers and sellers together and negotiate between them. Brokers, most commonly found in the food, real estate, and insurance industries, may represent either a buyer or a seller and are paid by the party who hires them. Brokers often can represent several manufacturers of noncompeting products on a commission basis. They do not carry inventory or assume risk.

Unlike merchant wholesalers, agent middlemen do not take legal ownership of the goods they sell; nor do they generally take physical possession of them. The three principal types of agent middlemen are manufacturers' agents, selling agents, and purchasing agents. Manufacturers' agents, who represent two or more manufacturers' complementary lines on a continuous basis, are usually compensated by commission. As a rule, they carry only part of a manufacturer's output, perhaps in areas where the manufacturer cannot maintain full-time salespeople. Many manufacturers' agents are businesses of only a few employees and are most commonly found in the furniture, electric, and apparel industries. Sales agents are given contractual authority to sell all of a manufacturer's output and generally have
considerable autonomy to set prices, terms, and conditions of sale. Sometimes they perform the duties of a manufacturer's marketing department, although they work on a commission basis. Sales agents often provide market feedback and product information to the manufacturers and play an important role in product development. They are found in such product areas as chemicals, metals, and industrial machinery and equipment. Purchasing agents, who routinely have long-term relationships with buyers, typically receive, inspect, store, and ship goods to their buyers.

MANUFACTURERS' SALES BRANCHES AND SALES OFFICES—
Manufacturer-owned intermediaries are set up by manufacturer's in order to have separate business units that perform all of the functions of independent intermediaries, while at the same time maintaining complete control over the channel. Manufacturer-owned intermediaries include sales branches, sales offices, and manufacturers' showrooms. Sales branches carry inventory and provide sales and service to customers in a specific geographic area. Sales offices do not carry inventory but provide selling functions for the manufacturer in a specific geographic area. Because they allow members of the sales force to be located close to customers, they reduce selling costs and provide better customer service. Manufacturers' showrooms permanently display products for customers to visit. They are often located in or near large merchandise marts.

Manufacturer sales branches and sales offices are, in essence, a merchant wholesaler that is owned by a manufacturer. Sales Branches carry inventory, extend credit, deliver goods and offer help in promoting products. Their customers are retailers, other wholesalers and industrial purchasers.

Sales offices is essentially sales agent owned by a manufacturer sales offices may sell goods manufactured by their own firms as well as certain products of other manufacturer that complement their own product lines.

FACTORS SUGGESTING TYPE OF WHOLESALERS TO USE:

<table>
<thead>
<tr>
<th>FACTORS</th>
<th>MERCHANT WHOLESALERS</th>
<th>AGENTS OR BROKERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nature of product</td>
<td>standard</td>
<td>Non-standard custom</td>
</tr>
<tr>
<td>Technically of product</td>
<td>complex</td>
<td>simplex</td>
</tr>
<tr>
<td>Product's gross margin</td>
<td>High</td>
<td>low</td>
</tr>
<tr>
<td>Frequency of ordering</td>
<td>frequent</td>
<td>infrequent</td>
</tr>
<tr>
<td>Time between order and receipt of shipment</td>
<td>Buyer desires shorter lead time</td>
<td>Buyer satisfied with long lead time</td>
</tr>
<tr>
<td>Number of customers</td>
<td>Many</td>
<td>low</td>
</tr>
<tr>
<td>Concentration of customers</td>
<td>dispersed</td>
<td>concentrated</td>
</tr>
</tbody>
</table>

Wholesalers are one of the important middlemen in the channel of distribution who deals with the goods in bulk quantity. They buy goods in bulk from the producers and sell them in relatively smaller quantities to the retailers. In some cases they also sell goods directly to the consumers if the quantity to be purchased is more. They usually deal with a limited variety of items and also in a specific line of product, like iron and steel, textiles, paper, electrical appliances, etc. Let us know about the characteristics of wholesaler.
ROLE OF WHOLESALER

Wholesaler acts as a middleman in the channel of distribution as he buys goods in large quantity from the manufacturer and sells these to retailers in small quantities. His role in distribution of goods is discussed below:

I. Buying and assembling: A wholesaler forecasts the demand for goods and assembles different varieties of goods from several manufacturers. Some wholesalers also import goods from foreign countries.

II. Selling and dispersing: A wholesaler breaks the bulk so that retailers and users can buy them in small lots. His representatives regularly call on retailers and industrial users/buyers to distribute the goods among widely scattered people.

III. Transportation: A wholesaler arranges transportation of goods from producers to his godowns and from there to retailers sometimes he has his own transport arrangement for this purpose.

IV. Storage: He holds large stocks and serves as a reservoir and supplies to retailers. He helps in stabilizing prices by adjusting supply of goods to their demand.

V. Packing and grading: A wholesaler packs and repacks goods in convenient lots. He sorts out goods in different grades. He also gives brand names to the products packed and graded by him.

VI. Advertising and sales promotion: A wholesaler performs advertising and sales promotion activities to increase the sale of products. He also takes the services of experts for this purpose.

VII. Financing: Sometimes the wholesaler buys goods on cash basis from manufacturers and sells them on credit to retailers. In this way he provides financial help both to the producers and retailers. If necessary, the wholesaler also provides financial help by way of advance payment to producers.

VIII. Risk-taking: A wholesaler bears risks of changes in demand and prices, bad debts and damage to goods in the course of transportation and storage. By undertaking various risks he simplifies the process of distribution.

5.8 FUNCTIONS OF WHOLESALER:

You have well understood the meaning of wholesaler and listed their characteristics. Now let us know about the functions of wholesalers.

Following are the functions, which a wholesaler usually performs.
(a) Collection of goods: A wholesaler collects goods from manufacturers or producers in large quantities.
(b) Storage of goods: A wholesaler collects the goods and stores them safely in warehouses, till they are sold out. Perishable goods like fruits, vegetables, etc. are stored in cold storage.
(c) Distribution: A wholesaler sells goods to different retailers. In this way, he also performs the function of distribution.
(d) Financing: The wholesaler provides financial support to producers and manufacturers by sending money in advance to them. He also sells goods to the retailer on credit. Thus, at both ends the wholesaler acts as a financier.
(e) Risk taking: The wholesaler buys finished goods from the producer and keeps them in the warehouses till they are sold. Therefore, he assumes the risks arising out of changes in demand, rise in price, spoilage or destruction of goods.

In a short way:

<table>
<thead>
<tr>
<th>Distribution Function</th>
<th>Example for Wholesaling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information</td>
<td>Telling retailers about the competition</td>
</tr>
<tr>
<td>Product</td>
<td>Building assortments needed by retailers</td>
</tr>
<tr>
<td>Price</td>
<td>Reaching many small retailers at low cost</td>
</tr>
<tr>
<td>Place</td>
<td>Providing quick delivery by being located closer to retailer than the producers are</td>
</tr>
<tr>
<td>Promotion</td>
<td>Having contacts with the buyer</td>
</tr>
<tr>
<td>Ownership</td>
<td>Holding inventories, absorbing risk</td>
</tr>
</tbody>
</table>

5.9 SERVICES OF WHOLESALER
The wholesaler renders a number of services to trade, industries and commerce. The services rendered by the wholesaler may be classified as:
✓ Service to Producer;
✓ Service to Retailer;
✓ Service to Consumer;
✓ General Services;

To Producers
The wholesaler provides valuable information to the producers regarding the needs and the requirement of the consumer. As the wholesaler takes the responsibility of collecting order from retailers, he relieves the producers from this task and thereby encourages producers to concentrate on production. The wholesaler provides finance to the producers at the time of need. The wholesaler helps the producers in determining the quality and quantity of goods to be produced as he is in direct contact with the retailers. The producers are helped to maintain steady prices for the product because wholesaler buys when prices are low and sell when prices are high.

To Retailers
The retailers are relieved of maintaining huge stock of goods because the wholesaler fills up the stock regularly. The wholesaler buys in large quantities and sells them at convenient lots to the retailers. The wholesaler provides finance and credit facilities to the retailer and thereby relieves the financial difficulties of the retailer.

The wholesaler saves retailers from many types of risks. The retailer is not required to carry huge stock as he can get them from the wholesaler at regular interval. By extending credit has saved the retailers a lot.

The wholesaler provides valuable advices to the retailer on all matters relating to new product and market condition and thereby relieves him from collection of market data. The wholesaler gives trade discounts on bulk purchase and as such it enables the retailers to earn handful amount of profit.
**To Consumer**

He enables the consumer to purchase required quantities of goods at the desired time because he supplies goods regularly to the retailers. He provides goods at a cheaper rate because he facilitates in large scale production. The wholesaler is in a better position to stabilize prices of the products by adjusting demand and supply. The consumers are benefited a lot on account of stabilization of prices. There is no shortage of goods as the wholesaler goes on large purchasing. The wholesalers are wealth of information and as such these information are shared by the consumers.

**General Services**

There are certain goods which are to be assembled or graded before they pass to the retailer or the consumer. For these goods the presence of wholesaler is a must. Wholesaler helps in standardization and grading of the products. For marketing food-grains the services of the wholesalers cannot be dispensed with because they help in packing and re-packing of goods.

**Specialized Wholesalers services**

Many Wholesalers are adding marketing research and marketing information services. They help their customers gather information and provide them with data that will help the businesses improve their operations and decisions. Computer technology can process orders more rapidly and keep track of the quantity and location of products. New methods of storing and handling products reduce product damage, the cost of distribution and the time needed to get products from the manufacturer to the customer. Wholesalers are provided additional services to their customers such as marketing and promotional planning, 24 hour ordering and emergency deliveries, specialized storage facilities and individualized branding and packaging services.

The distributor or wholesaler is providing many of the activities related directly to the end customer for the manufacturer, the manufacturer must replicate many of the activities in order to serve the distributor or wholesaler (Table):

**Table: Distributor or Wholesaler and Manufacturer Activities**

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>DISTRIBUTOR-WHOLESALE TO END CUSTOMER</th>
<th>MANUFACTURER TO DISTRIBUTOR-WHOLESALE</th>
<th>MANUFACTURER TO END CUSTOMER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Identification and Acquisition</td>
<td>Outside sales</td>
<td>Marketing Tools, Technical support, Distributor-wholesaler Training</td>
<td>End customer Advertising, loop Advertising</td>
</tr>
<tr>
<td>Product/customer Matching</td>
<td>Limited Activity</td>
<td>Counter sales or Phone/Fax orders</td>
<td>Counter sales or Phone/Fax orders</td>
</tr>
<tr>
<td>Closing</td>
<td>Accept orders from customers</td>
<td>Accepts distributor-wholesaler orders</td>
<td>Accepts distributor-wholesaler orders</td>
</tr>
<tr>
<td>Order Acceptance and processing</td>
<td>Credit screening and End customer Receivables</td>
<td>Distributor Receivables</td>
<td>Distributor Receivables</td>
</tr>
</tbody>
</table>
Manufacturers must support their distributors or wholesalers in two major areas for the overall channel to operate effectively. First, manufacturers must supply selling tools and related training in order for the distributor, or more rarely the wholesaler, to perform the Customer/Product Matching activity. Few distributors or wholesalers have the technical knowledge to develop their own programs to explain adequately and help customers select products appropriately. Secondly, manufacturers still need to perform Finance and Logistics functions in order to serve the distributors or wholesalers. The manufacturer must process orders and ship to the distributors or wholesalers and must make credit decisions on whom to finance and to what degree.

Post sales (Support) activities have emerged as a contentious issue in the relationship between manufacturers and the distributor or wholesaler channel. After-sale parts and service are often a key element in the lifecycle profitability of a product sale; distributors and wholesalers have traditionally controlled the after-market by virtue of their direct contact with the customer. As manufacturers have attempted to increase their own parts revenues and establish a service business, they have found themselves in conflict with their distributors or wholesalers, limiting the manufacturer’s after-sale profit potential. The lost profit stream from after-sale parts and service raises the true cost of using distributors and wholesalers.

So that in a short way we can explain wholesalers as following:

- They break down 'bulk' into smaller packages for resale by a retailer.
- They buy from producers and resell to retailers. They take ownership or 'title' to goods whereas agents do not (see below).
- They provide storage facilities. For example, cheese manufacturers seldom wait for their product to mature. They sell on to a wholesaler that will store it and eventually resell to a retailer.
- Wholesalers offer reduce the physical contact cost between the producer and consumer e.g. customer service costs, or sales force costs.
- A wholesaler will often take on some of the marketing responsibilities. Many produce their own brochures and use their own telesales operations.

6. RETAILING
“SELLING DIRECTLY TO CONSUMERS”

6.1 INTRODUCTION

Retailing is the last commercial link in the marketing channel and the point where products finally reach their users. Retailing includes all activities directly related to the sale of goods or services to the ultimate customer for personal use. For example, it includes the movement of products from the manufacturer to wholesalers, warehouses,
shippers, advertisers and retailers before ever reaching the consumer. The cost of all these activities (including in-store retail advertising and promotions) is normally passed on to the consumer through higher prices. Retailing represents the culmination of the marketing process, the contact point between consumers and manufacture products, marketing communications and customer service. The origins of retailing are as old as trading itself. The traders in a town market, or the hawkers who come to people’s door are retail operators in the same way as a major chain of department stores or a home shopping catalogue company.

The retail industry is a sector of the economy that is comprised of individuals and companies engaged in the selling of finished products to end user consumers. Retailing consists of the sale of goods or merchandise from a fixed location, such as a department store, boutique or kiosk, or by mail, in small or individual lots for direct consumption by the purchaser. Retailing may include subordinated services, such as delivery. Purchasers may be individuals or businesses. To build a successful retail distribution channel, however, you’ll want to team up with a retail marketing partner that will allow you to place your product in its store either for free or for a fee. The retail marketing partner might be a retail store, a wholesaler, an e-commerce site, a mail-order catalog, a trade association — there are a lot of ways to distribute products. For example: Sell consumer and business books, as well as videos and audiotapes, through bricks-and-mortar and/or online bookstores. Offer special reports and white papers through affiliations with business groups and trade associations—at their events and expos and through their online stores. Market business tools such as kits, plans, software, CD-ROMs, and DVDs through bricks-and-mortar and/or online office supply stores, computer stores, and stationers. Sell consumer merchandise—sports items, clothing, games, calendars, pet equipment, etc.—through retail shops or e-commerce sites that market similar or compatible products. Promote events through related but non-competitive websites.

6.2 CLASSIFICATION OF RETAIL OPERATIONS

A Retail establishment can be classified according to its ownership, level of service, product assortment and price.
OWNERSHIP- Retailers can be classified by form of ownership: independent part of a chain or franchise outlet. Independent Retailers are which owned by single person or partnership and not operated as part of a larger retail institution. Chain stores are owned and operated as a group by a single organisation. Under this form of ownership, many administrative tasks are handled by the home office for the entire chain. Franchises are owned and operated by individuals but are licensed by a larger supporting organization. The Franchise approach combines the advantages of independent ownership with those of the chain store organization.

LEVEL OF SERVICE- They provide alterations, credit, delivery, consulting, liberal return policies, gift wrapping and personal shopping. Discount stores usually offer fewer services. Retailers like factory outlet and warehouse clubs offer virtually no services.

PRODUCT ASSORTMENT- The third basis for positioning or classifying stores is by the breadth and depth of their product line. Speciality stores have the most concentrated product assortments, using single or narrow product lines but in considerable depth. Such as factory outlet stores may carry only part of a single line. Nike stores sell only certain items of its own brand.

PRICE- Price is a fourth way to position retail stores. Traditional department stores and specialty stores typically charge the full "suggested retail price". In contrast, discounters, factory outlets, and off-price retailers use low prices as a major lure for shoppers.

TYPES OF RETAIL OPERATIONS

A marketplace is a location where goods and services are exchanged. The traditional market square is a city square where traders set up stalls and buyers browse the merchandise. This kind of market is very old, and countless such markets are still in operation around the whole world. Traditionally, there have been several distinct types of retail stores, each offering a different product assortment, types of service and price level, according to its customer's shopping preferences.

**TYPES OF RETAIL operation**

[Diagram showing types of retail stores]

WAREHOUSE CLUB  DEPARTMENT STORE  MASS MERCHANDISER

FACTORY SHOP  OFF-PRICE RETAILER

DISCOUNT STORE  CONVENIENCE STORE

SPECIALITY STORE  SUPERMARKET
Department stores is a retail store (1) employs twenty five or more persons and (2) sells at least home appliances, family apparel and household linens and dry goods, each in a different part of this store. Traditionally, department stores have been service oriented. Along with the goods they sell, these retailers provide credit, delivery personal assistance, liberal return policies and pleasant shopping atmospheres.

Warehouses clubs offer the same types of products offered by discount stores but in a limited range of sizes and styles. Because their product lines are shallow and sales volumes are high, warehouses clubs can offer a broad range of merchandise including perishable and non perishable foods, appliances, hardware, furniture, sundries etc.

A Specialty store carries a narrow product mix with deep product lines. These stores are sometimes called limited-line retailers. If they carry depth in one particular product category, they may be called single line retailers. These stores usually sell such products as clothing, jewellery, sporting goods, computers, fabrics, books etc. They attract customers by emphasizing service, atmosphere and location. Specialty stores usually deeper product mixes than department stores. Consumers who are dissatisfied with the impersonal atmosphere of large retailers often find the attention offered by small specialty stores appealing.

An Off Price retailer is a store that buys manufacturer's seconds, overruns, returns and off season merchandise at below Wholesale prices and sell them to consumers at deep discounts. Off price retailers sell limited lines of national brand and designer merchandise usually clothing, shoes or house wares. These stores charge up 50 percent less than department stores do for comparable merchandise but offer few customer services. Off price retailers often include community dressing rooms and central checkout counters and some off price retailers have a no returns, no exchange policy.

In a recent trend, however retailers are experimenting with alternative formats that make it harder to classify them. For instance, supermarkets are expanding their non-food items and series; discounters are adding groceries; drugstores are becoming more like convenience stores; and department stores are experimenting with smaller stores. Nevertheless many stores still fall into the basic types.

Specialty stores
A specialty store carries a deep assortment within a narrow line of goods. Furniture stores, florists, sporting-goods stores, and bookstores are all specialty stores. Stores such as Athlete’s Foot (sports shoes only) and Tall Men (clothing for tall men) are considered super specialty stores because they carry a very narrow product line.

Department stores
Department stores carry a wider variety of merchandise than most stores but offer these items in separate departments within the store. These departments usually include home furnishings and household goods, as well as clothing, which may be divided into departments according to gender and age. Departments within each store are usually operated as separate entities, each with its own buyers, promotions, and service personnel. Some departments, such as restaurants and beauty parlors, are leased to external providers. Department stores generally account for less than 10 percent of a country's total retail sales, but they draw large numbers of customers in urban areas. The most influential of the department stores may even be trendsetters in various fields, such as fashion. Department
stores such as Nike, Roebuck and Company have also spawned chain organizations. Others may do this through mergers or by opening branch units within a region or by expanding to other countries.

Supermarkets
Supermarkets are characterized by large facilities (15,000 to 25,000 square feet [1,394 to 2,323 square meters] with more than 12,000 items), low profit margins (earning about 1 percent operating profit on sales), high volume, and operations that serve the consumer's total needs for items such as food (groceries, meats, produce, dairy products, baked goods) and household sundries: They are organized according to product departments and operate primarily on a self-service basis. Supermarkets also may sell wines and other alcoholic beverages (depending on local licensing laws) and clothing.
The first true supermarket was opened in the United States by Michael Cullin in 1930. His King Kullen chain of large-volume food stores was so successful that it encouraged the major food-store chains to convert their specialty stores into supermarkets. When compared with the conventional independent grocer, supermarkets generally offered greater variety and convenience and often better prices as well. Consequently, in the two decades after World War II, the supermarket drove many small food retailers out of business, not only in the United States but throughout the world. In France, for example, the number of larger food stores grew from about 50 in 1960 to 4,700 in 1982, while the number of small food retailers fell from 130,000 to 60,000.

Convenience stores
Located primarily near residential areas, convenience stores are relatively small outlets that are open long hours and carry a limited line of high-turnover convenience products at high prices. Although many have added food services, consumers use them mainly for “fill-in” purchases, such as bread, milk, or miscellaneous goods.

Superstores
Superstores, hypermarkets, and combination stores are unique retail merchandisers. With facilities averaging 35,000 square feet, superstores meet many of the consumer's needs for food and nonfood items by housing a full-service grocery store as well as such services as dry cleaning, laundry, shoe repair, and cafeterias. Combination stores typically combine a grocery store and a drug store in one facility, utilizing approximately 55,000 square feet of selling space. Hypermarkets combine supermarket, discount, and warehousing retailing principles by going beyond routinely purchased goods to include furniture, clothing, appliances, and other items. Ranging in size from 80,000 to 220,000 square feet, hypermarkets display products in bulk quantities that require minimum handling by store personnel.

Discount stores
Selling merchandise below the manufacturer's list price is known as discounting. The discount store has become an increasingly popular means of retailing. A key strategy for keeping operating costs (and therefore prices) low was to locate in low-rent shopping districts and to offer minimal service assistance. This no-frills approach was used at first only with hard goods, or consumer durables, such as electrical household appliances, but it has since been shown to be successful with soft goods, such as clothing. This practice has been adopted for a wide variety of products, so that discount stores have essentially become
department stores with reduced prices and fewer services. In the late 20th century, discount stores began to operate outlet malls. These groups of discount stores are usually located some distance away from major metropolitan areas and have facilities that make them indistinguishable from standard shopping malls. As they gained popularity, many discount stores improved their facilities and appearances, added new lines and services, and opened suburban branches. Coupled with attempts by traditional department stores to reduce prices in order to compete with discounters, the distinction between many department and discount stores has become blurred. Specialty discount operations have grown significantly in electronics, sporting goods, and books.

**Types of Retail Trade**

You have learnt about retailers in the previous section. You may be under the impression that retailers are small shopkeepers trading in the nearby locality. However, you will be surprised to know that starting from hawkers and street traders, to super bazaars, departmental stores and multiple shops, all undertake retail-trading business in our country.

We can classify this retailing business into two categories:

a. Small-scale retail trade; and
b. Large-scale retail trade.

Small-scale retail trade is one where a limited variety and also limited quantity of goods are sold within a local area. It requires less capital and provides goods to a limited number of customers.

On the other hand, large-scale retail trade is one where capital investment is more and it deals with large volume of goods. It caters to the needs of a large number of customers. Super bazaars, Departmental stores and Multiple shops are examples of large scale retail trade organization.

**DIAGRAM—**

```
    RETAIL TRADE
     /         \
   /           \
SMALL SCALE RETAIL TRADE  LARGE SCALE RETAIL TRADE
   |                   |
  ITINERANTS  FIXED SHOP
                   |
                    DEPARTMENTAL STORE
                        |
                          MULTIPLE SHOPS
                                 |
                                       SUPER BAZAR
```

You will be learning large-scale retail trade in the next lesson. In this lesson let us learn the details about small-scale retail trade.

**Small-scale Retail Trade**

There are verities of retailers engaged in small scale retail trading. They can be classified as:
(i) Itinerant Retailing
(ii) Fixed Shop Retailing

I. Itinerant Retailing

Itinerant retailing is a type of small-scale retail trade in which retailers move around and sell a variety of items directly to the consumers. They do not have a fixed shop where they can sell. You must have seen them distributing newspapers early in the morning; selling peanuts, bangles, toys etc. in buses and trains; selling fruits and vegetables in your locality using a cart, selling ice cream, namkeens etc. on a cycle, selling rice, earthen pots or even carpets by using a cart, etc. You can also see them on pavements in your locality. In towns and cities we come across different type of itinerant retailers. There are traders who sell their articles on fixed days at different market places. In villages these market places are called “Haat” and in towns or cities they are called “weekly bazars”. The itinerant retailing also includes persons selling articles from door to door. In most cases, the price of items is not fixed and mostly settled through bargaining. Moreover, in most cases the items sold are not branded products.

II. Fixed Shop Retailing

Here the retailers sell goods and services from a fixed place known as ‘shop’. These shops are usually located at market places or commercial areas or near residential localities. These shops normally deal with a limited variety of goods. The goods are stored as well as displayed in the shops. On the basis of the type of goods which the fixed shops deal in, we can classify this form of retailing as under.

- a. General store or variety store
- b. Single line store
- c. Specialty store

Let us know the details about these stores.

a. General store or Variety store

These stores, as the name suggest, deal with a variety of items of general use. They sell products mostly required by people for their daily use. For example, in a variety store you can find different items on toiletry, hosiery, biscuits and snacks items, grocery, cosmetic, gift items and stationery, etc. Normally these retailers make direct sale by cash only. However, for their regular customers, these retailers may give discount, provide credit facility and also deliver purchased goods at the customer’s house free of charge.

b. Single line store

These stores deal with a specific line of goods. You must have seen medicine shops, bookshops, toy shops, ready-made garment shops, etc. These are all single line stores. They sell goods of different size, brands, designs, styles and quality of the same product line.

c. Specialty store

These stores deal with products of specific brand or company. All varieties of any particular brand or manufacturers are made available in these stores. You must have seen stores, like
woodland shoe shops where products starting from shoe to apparel produced by woodland company are made available to the customers.

6.3 THE WHEEL-OF-RETAILING
Growth of multiples, ‘one-stop’ and ‘non-shop’ shopping

The wheel-of-retailing concept refers to evolutionary change in retailing and is similar to the product life cycle concept. The concept states that new retailing institutions enter the market as low-status, low-margin, low-price operations and then move up market towards higher status, higher margin and higher priced positions. New forms of retailing can be seen as going through various life-cycle stages (i.e. introduction, growth, maturity and decline). The wheel-of-retailing appears to be turning with ever increasing speed with each new retail innovation taking less time to reach the maturity stage. For example, evidence suggests that it took approximately 50 years for the older-style department stores to reach the maturity (i.e. steady sales) stage; supermarkets took about 25 years and hypermarkets only 10 years.

The concept is even analogous to Charles Darwin's theory of evolution of plants and animals that proposed a changing environment leads to adaptation and hence evolution. Darwin also explained that there is no need for adaptation in a stable environment; there has to be change for the evolutionary process to occur. We shall look at some of the environmental changes that have taken place which have instigated adaptation and evolution in retailing over the relatively short period just described.

An interesting phenomenon that has been consistently observed in the retail world is the tendency of stores to progressively add to their services. Many stores have started out as discount facilities but have gradually added services that customers have desired. If you've ever wondered why those great little discount stores you go to don't seem to last forever, the Wheel of Retailing theory explains why. As soon as a discount store starts to get reasonably successful, usually they then start to imitate the bigger mainstream stores, and soon they're not low-end enough to afford to sell at discount prices any more.

The Wheel of Retailing

High end strategy
- High prices
- Excellent facilities and services
- Upscale consumers

Medium strategy
- Moderate prices
- Improved facilities
- Broader base of value and service conscious Consumers

Low end strategy
- Low prices
- Limited facilities and services
- Price sensitive consumers
The search for economies of scale

In search for greater profits, larger retail chains devised larger scale methods of operation and supermarkets have culminated in today's hypermarkets (stores with at least 50,000 square feet of selling space) and even larger 'mega markets'. Each new retailing mode has led to greater economies of scale and better financial return.

Retail positioning. There are several ways in which retail stores can position themselves. One strategy involves low-cost, low-service. On the opposite side of the spectrum, others may offer high-cost-high-service. Generally, having a clear strategy and position tends to be more effective since "average" stores tend to face a greater scope of competition.

The Future of Retailing

- New Retail forms and Shortening retail operations
- Growth of non store Retailing
- Increasing intertype competition
- Rise of the mega retailers
- Growing importance of retail technology
- Global expansion of major retailers
- Retail stores as communities or hangouts

6.4 OVERVIEW OF INDIAN RETAIL SECTOR

Retail Sector is the most booming sector in the Indian economy. Some of the biggest players of the world are going to enter the industry soon. It is on the threshold of bringing the next big revolution after the IT sector. Although organized retail market is not so strong as of now, it is expected to grow manifolds by the year 2010. The sector contributes 10% of the GDP, and is estimated to show 20% annual growth rate by the end of the decade as against the current growth rate of 8.5%. A CRISIL report says that the Indian retail market is the most fragmented in the world and that only2% of the entire retailing business is in the organized sector. This suggests that the potential for growth is immense. There are about 300 new malls, 1500 supermarkets and 325 departmental stores currently being built in the cities across India.

Estimates and predictions for retail sector:
- At present, the industry is estimated to be at more than US$ 400 billion by a study of McKinsey.
- The Economist Intelligence Unit (EIU) estimates the retail market in India will increase to US$608.9 billion in 2009 from US$394 billion in 2005.
- KPMG Report says that the organized retail would grow at a higher rate than the GDP in the next five years.
- The retail sector would generate employment for more than 2.5 million people by the year 2010, predicts an analysis by Ma Foi Management Consultants Ltd.

Some of the players present in the industry:
Archies, Bata India Ltd, Big Bazaar, Crossword, Ebony Retail Holdings Ltd., Fabmall, Food Bazaar, Globus Stores Pvt. Ltd., Health and Glow, Liberty Shoes Ltd., MTR Foods Ltd., Music World Entertainment Ltd., Pantaloons, Pantaloon Retail India Ltd., Shoppers Stop, StyleSPA Furniture Ltd, Subhiksha, Titan Industries, Lifestyle, etc. New entrants entering the market soon will be Reliance Retail Ltd, Wal-Mart Stores, Carrefour, Tesco, Boots Group, etc.
6.5 RETAILER

"One who sells goods or commodities directly to consumers. These items are purchased from the manufacturer or wholesaler and sold to the end user at a marked up price."

Many companies prefer to focus on development and production of products, and leave the sales to the final consumer up to intermediaries. The most well-known of these are retailers - a store (or chain of stores) who specialize in reselling products. While you may sell to individual stores or a small association, many businesses try to market to "big box" retailers like Big Bazaar, Reliance Mart etc.

In other ways "Retailers are the traders who buy goods from wholesalers or sometimes directly from producers and sell them to the consumers. They usually operate through a retail shop and sell goods in small quantities. They keep a variety of items of daily use."

A business which sells goods to the consumer, as opposed to a wholesaler or supplier which normally sell their goods to another business. Retailers include large businesses such as Big Bazaar, and also smaller, non-chain locations run independently such as a Universal bookstore. In commerce, a retailer buys goods or products in large quantities from manufacturers or importers, either directly or through a wholesaler, and then sells individual items or small quantities to the general public or end user customers, usually in a shop, also called store. Retailers are at the end of the supply chain. Marketers see retailing as part of their overall distribution strategy. Shops may be on residential streets, or in shopping streets with little or no houses, or in a shopping center or shopping mall.

6.6 CHARACTERISTICS OF RETAILER:

The following are the characteristics of retailers:

(i) Retailers have a direct contact with consumers. They know the requirements of the consumers and keep goods accordingly in their shops.
(ii) Retailers sell goods not for resale, but for ultimate use by consumers. For example, you buy fruits, clothes, pen, pencil etc. for your use, not for sale.
(iii) Retailers buy and sell goods in small quantities. So customers can fulfill their requirement without storing much for the future.
(iv) Retailers require less capital to start and run the business as compared to wholesalers.
(v) Retailers generally deal with different varieties of products and they give a wide choice to the consumers to buy the goods.

The characteristic that sets a retailer apart from other members of its distribution channel is that the retailer is the party who ultimately sells the product to its end user or consumer. As you know if you’ve ever shopped for anything retailers come in many shapes and sizes, so to speak. Retailers may be grouped according to any of the following four categories:

Ownership. Every brick-and-mortar retailer can be classified as a large, national chain store; a smaller, regional chain store; an independent retailer; or a franchisee.
Pricing philosophy. Stores are generally either discounters or full-price retailers. Within the "discouter" category, there are several subcategories such as factory outlets, consignment stores, dollar stores, specialty discount stores, warehouse membership clubs, and so on.

Product assortment. The breadth and depth of product lines carried by the store depends a lot on its ownership. An Ann Taylor store, for example, sells Ann Taylor branded clothing—not much breadth of product line there, but extensive depth in that line. A Kmart, on the other hand, carries thousands of brands, but perhaps does not have much depth (not many brands) in any given category of product.

Service level. The more exclusive or specialized the store, the more types of services it will generally offer—from a name-branded credit card, to on-site alterations, to liberal return policies for its loyal customers. With the "big box" discounters, on the other hand, customers pay for convenience and bypass traditional service, by bagging their own groceries and the like. These distinctions between various types of stores will be important as we discuss their participation in certain distribution channels.

**TYPES OF RETAILER**

Retailers are classified by:

- **AMOUNT OF SERVICE**
  - Self service, limited service,
  - and full service Retailer

- **PRODUCT LINE**
  - Length and Breadth of the
  - Product Assortment

- **RELATIVE PRICES**
  - Pricing structure that is used
  - by the Retailer

- **RETAIL ORGANIZATIONS**
  - Independent, Corporate or
  - contractual ownership

**Off-price retailers**

Off-price retailers offer a different approach to discount retailing. As discount houses tried to increase services and offerings in order to upgrade, off-price retailers invaded this low-price, high-volume sector. Off-price retailers purchase at below-wholesale prices and charge less than retail prices. This practice is quite different from that of ordinary discounters, who
buy at the market wholesale price and simply accept lower margins by pricing their products below retail costs. Off-price retailers carry a constantly changing collection of overruns, irregulars, and leftover goods and have made their biggest forays in the clothing, footwear, and accessories industries. The three primary examples of off-price retailers are factory outlets, independent carriers. Stocking manufacturers’ surplus, discontinued, or irregular products, factory outlets are owned and operated by the manufacturer. Independent off-price retailers carry a rapidly changing collection of higher-quality merchandise and are typically owned and operated by entrepreneurs or divisions of larger retail companies.

**ROLE OF RETAILER**

Retailers buy goods from wholesaler and sells them directly to consumers. Thus he acts as a direct link between the wholesaler and consumers. His role in distribution of goods is enumerated below:

I. **Wide choice to consumers**: The retailer anticipates needs of consumers. He assembles goods from different sources and stocks different varieties of products. Thus, he offers a wide choice to consumers. They can buy according to their purchasing power and requirements.

II. **Availability of goods in small quantities and at convenient locations**: A retailer provides ready supply of goods so that consumers can buy conveniently and quickly in small lots without any inconvenience of placing advance orders and waiting for supplies. By ensuring uninterrupted and fresh supply of goods, he saves consumers from the botheration of buying goods in bulk and storing them.

III. **Home delivery**: A retailer transports goods from wholesalers to ultimate consumers. Some retailers provide free home delivery service to their consumers. Thus they create place utility.

IV. **Assurance of regular supply**: He maintains adequate supply of goods so that consumers are sure of getting regular supply at the time of their need.

V. **Credit facility**: Although retailers mostly sell goods for cash, they also supply goods on credit to their regular customers.

VI. **Close interaction with customers**: A retailer brings new products to the notice of customers and educates them in their uses. A retailer thus, acts as a friend and guide to his customers. Indeed his interaction with customers is of intimate personal nature and thus he is able to provide feed back to wholesalers and manufacturers about consumers' preferences.
6.7 FUNCTIONS OF RETAILER

All retailers deal with the customers of varying tastes and temperaments. Therefore, they should be active and efficient in order to satisfy their customers and also to induce them to buy more. Let us see what the retailers do in distribution of goods.

(i) Buying and Assembling of goods: Retailers buy and assemble varieties of goods from different wholesalers and manufacturers. They keep goods of those brands and variety which are liked by the customers and the quantity in which these are in demand.

(ii) Storage of goods: To ensure ready supply of goods to the customer retailers keep their goods in stores. Goods can be taken out of these store and sold to the customers as and when required. This saves consumers from botheration of buying goods in bulk and storing them.
(iii) Credit facility: Although retailers mostly sell goods for cash, they also supply goods on credit to their regular customers. Credit facility is also provided to those customers who buy goods in large quantity.

(iv) Personal services: Retailers render personal services to the customers by providing expert advice regarding quality, features and usefulness of the items. They give suggestions considering the likes and dislikes of the customers. They also provide free home delivery service to customers. Thus, they create place utility by making the goods available when they are demanded.

(v) Risk bearing: The retailer has to bear many risks, such as risk of:
(a) fire or theft of goods
(b) deterioration in the quality of goods as long as they are not sold out.
(c) change in fashion and taste of consumers.

(vi) Display of goods: Retailers display different types of goods in a very systematic and attractive manner. It helps to attract the attention of the customers and also facilitates quick delivery of goods.

(vii) Supply of information: Retailers provide all information about the behavior, tastes, fashions and demands of the customers to the producers through wholesalers. They become a very useful source of information for marketing research.

In a short:

<table>
<thead>
<tr>
<th>Distribution Function</th>
<th>Example for Retailing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information</td>
<td>Collecting information about customers in store</td>
</tr>
<tr>
<td>Product</td>
<td>Advise manufacturer on product design changes</td>
</tr>
<tr>
<td>Price</td>
<td>Offer smaller volume of goods for consumer to buy</td>
</tr>
<tr>
<td>Place</td>
<td>Offer variety of products in one location for consumer</td>
</tr>
<tr>
<td>Promotion</td>
<td>Run own ads or team up with manufacturer in joint ads</td>
</tr>
<tr>
<td>Ownership</td>
<td>Absorb risk by taking title and bearing cost of theft, damage, etc.</td>
</tr>
</tbody>
</table>

Distinction between Wholesaler and Retailer

You have studied about wholesaler and retailer. You might have noticed that both of them differ in their style and function. Let us find out these differences.

Wholesaler
(i) Buys goods in large quantities.
(ii) Buys goods directly from producers.
(iii) Deals with limited variety of goods.
(iv) Requires more capital to start and run the business.
(v) Sell goods for resale purpose.

Retailer
(i) Buys goods in small quantities.
(ii) Generally buys goods from the wholesalers.
(iii) Deals with wide range of products.
(iv) Requires less capital to start and run the business.
(v) Sell goods for consumption.
Understanding Your Markets and Customers
To compete effectively in the retail sector, it is essential to understand your markets and your customers. Retaining customers and increasing customer loyalty are key marketing issues across all retail sectors. Retailers are constantly reviewing their range, service levels and opening hours to meet the needs of increasingly demanding and discerning shoppers. You must be able to measure market trends, track sales performance and refine marketing activities quickly and efficiently.

6.8 DISTRIBUTION INTERESTS: RETAILERS VS. MANUFACTURERS

Manufacturers of different kinds of products have different interests with respect to the availability of their products. For convenience products such as soft drinks, it is essential that your product be available widely. Chances are that if a store does not have a consumer's preferred brand of soft drinks, the consumer will settle for another brand rather than taking the trouble to go to another store. Occasionally, however, manufacturers will prefer selective distribution since they prefer to have their products available only in upscale stores. Parallel distribution structures refer to the fact that products may reach consumers in different ways. Most products flow through the traditional manufacturer - retailer --> consumer channel. Certain large chains may, however, demand to buy directly from the manufacturer since they believe they can provide the distribution services at a lower cost themselves. In turn, of course, they want lower prices, which may anger the traditional retailers who feel that this represents unfair competition. Firms may also choose to utilize factory outlet stores. To allay concerns held by conventional stores, however, these factory outlet stores are usually located in areas where they are not easily accessible.

Increasing power of retailers- As more and more products compete for space in supermarkets, retailers have gained an increasing power to determine what is "in" and what is "out." This means that they can often "hold out" for better prices and other "concessions" such as advertising support and fixtures. A significant trend in recent years has been toward manufacturers' "private label" brands—that is, the retailers' own brands competing against the national ones. For example, Del Monte peas may now have to compete against Ralph's brand of peas in those stores. Although private label brands sell for lower prices than national brands, margins are greater for retailers because costs are lower.

Non store retailers
Some retailers do not operate stores, and these non store businesses have grown much faster than store retailers. The major types of non store retailing are direct selling, direct marketing, and automatic vending.

Direct selling
This form of retailing originated several centuries ago and has mushroomed into a multibillion-dollar industry consisting of companies selling door-to-door, office-to-office, or at private-home sales meetings. The forerunners in the direct-selling industry include The
Fuller Brush Company (brushes, brooms, etc.), Electrolux (vacuum cleaners), and Avon (cosmetics). In addition, Tupperware pioneered the home-sales approach, in which friends and neighbors' gather in a home where Tupperware products are demonstrated and sold. Network marketing, a direct-selling approach similar to home sales, is also gaining prevalence in markets worldwide. In the model used by companies such as Amway and Shaklee, distributors are rewarded not only for their direct sales but also for the sales of those they have recruited to become distributors. In 2007 Amway's parent company tested an Internet recruitment model by launching Fanista, a Web site that sells entertainment media such as books, movies, and music while rewarding users for bringing other customers to the site.

**Direct marketing**
Direct marketing is direct contact between a seller (manufacturer or retailer) and a consumer. Generally speaking, a seller can measure response to an offer because of its direct addressability. Although direct marketing gained wide popularity as a marketing strategy only in the late 20th century, it has been successfully utilized for more than one hundred years. Many contemporary department stores and specialty stores supplement their store operations with direct-marketing transactions by mail, telephone, or the Internet. Mail-order firms grew rapidly in the 1950s and '60s in continental Europe, Great Britain, and certain other highly industrialized nations. Modern direct marketing is generally supported by advanced database technologies that track each customer's purchase behavior. Direct marketing is not a worldwide business phenomenon, however, because mail-order operations require infrastructure elements that are still lacking in many countries, such as efficient transportation networks and secure methods for transmitting payments.

Direct marketing has expanded from its early forms, among them direct mail and catalog mailings, to include such vehicles as telemarketing, direct-response radio and television, and Internet shopping. Unlike many other forms of promotion, a direct-marketing campaign is quantitatively measurable.

**Automatic vending**
Automatic vending is a unique area in nonstore merchandising because the variety of merchandise offered through automatic vending machines continues to grow. Initially, impulse goods with high convenience value such as cigarettes, soft drinks, candy, newspapers, and hot beverages were offered. However, a wide array of products such as hosiery, cosmetics, food snacks, postage stamps, paperback books, record albums, camera film, and even fishing worms are becoming available through machines.

Vending-machine operations are usually offered in sites owned by other businesses, institutions, and transportation agencies. They can be found in offices, gasoline stations, large retail stores, hotels, restaurants, and many other locales. In Japan vending machines now dispense frozen beef, fresh flowers, whiskey, jewelry, and even names of prospective dating partners. In Sweden vending machines have developed as a supplementary channel to retail stores, where hours of business are restricted by law. High costs of manufacturing, installation, and operation have somewhat limited the expansion of vending-machine retailing. In addition, consumers typically pay a high premium for vended merchandise.
Retail organizations
While merchants can sell their wares through a store or nonstore retailing format, retail organizations can also structure themselves in several different ways. The major types of retail organizations are corporate chains, voluntary chains and retailer cooperatives, consumer cooperatives, franchise organizations, and merchandising conglomerates.

Corporate chains
Two or more outlets that have common ownership and control, centralized buying and merchandising operations, and similar lines of merchandise are considered corporate chain stores. Corporate chain stores appear to be strongest in the food, drug, shoe, variety, and women’s clothing industries. Managed chain stores have a number of advantages over independently managed stores. Because managed chains buy large volumes of products, suppliers are willing to offer cost advantages that are not usually available to other stores. These savings can be passed on to consumers in the form of lower prices and better sales. In addition, because managed chains operate on such a large scale, they can hire more specialized and experienced personnel, who may be better able to take full advantage of purchasing and promotion opportunities. Chain stores also have the opportunity to take advantage of economies of scale in the areas of advertising, store design, and inventory control. However, a corporate chain may have disadvantages as well. Its size and bureaucracy often weaken staff members’ personal interest, drive, creativity, and customer-service motivation.

Voluntary chains and retailer cooperatives
These are associations of independent retailers, unlike corporate chains. Wholesaler-sponsored voluntary chains of retailers who engage in bulk buying and collective merchandising are prevalent in many countries. True Value hardware stores represent this type of arrangement in the United States. In western Europe there are several large wholesaler-sponsored chains of retailers located across multiple countries, each store using the same name and, as a rule, offering the same brands of products but remaining an independent enterprise. Wholesaler-sponsored chains offer the same types of services for their clients as do the financially integrated retail chains. Retailer cooperatives, such as ACE hardware stores, are grouped as independent retailers who establish a central buying organization and conduct joint promotion efforts.

Consumer cooperatives
Consumer cooperatives, or co-ops, are retail outlets that are owned and operated by consumers for their mutual benefit. The first consumer cooperative store was established in Rochdale, Eng., in 1844, and most co-ops are modeled after the same, original principles. They are based on open consumer membership, equal voting among members, limited customer services, and shared profits among members in the form of rebates generally related to the amounts of their purchases. Consumer cooperatives have gained widespread popularity throughout western and northern Europe, particularly in Denmark, Finland, Iceland, Norway, Sweden, and Great Britain. Co-ops typically emerge because community residents believe that local retailers’ prices are too high or service is substandard.
Franchise organizations
Franchise arrangements are characterized by a contractual relationship between a franchiser (a manufacturer, wholesaler, or service organization) and franchisees (independent entrepreneurs who purchase the right to own and operate any number of units in the franchise systems). Typified by a unique product, service, business method, trade name, or patent, franchises have been prominent in many industries, including fast foods, video stores, health and fitness centers, hair salons, auto rentals, motels, and travel agencies. McDonald's Corporation is a prominent example of a franchise retail organization, with franchises all over the world.

Traditional visa Modern Format Retailers
The retail boom will face a strong competition from the 12 million mom-and-pop stores. These are easily accessible and provide services like free home delivery and goods at credit, which is not possible with hypermarkets and supermarkets. Buying from Malls, Supermarkets and Department stores like Subhiksha, Marks & Spencers etc. provide a different environment where one can pick and choose from a variety of products. Owing to the entry of such big players, the small shopkeepers fear losing their business. Reliance Retail Ltd. has been inviting such people to join in its Dairy business as franchisees.

Challenges
The industry is facing a shortage of middle management level professionals. Major retailers are hiring aggressively from the similar and smaller organizations by offering better packages. They are creating various levels of management and hiring on a spree. Some of the areas such as technology, supply chain, distribution, logistics, marketing, product development and research are becoming very critical for the success of the organizations. All of these would lead to the recruitment of highly professional people who specialize in these fields. There is also a trend for hiring hotel management graduates, though now many retail schools are coming up, and Pantaloons has set up links with major business schools from where it would be selecting the right candidates. The sector is likely to produce 2 million jobs in the coming 3 years. There also exists a possibility that the retail sector would become a poaching ground once a number of domestic and international players enter the industry.

Frauds in Retail:
It is one of the primary challenges the companies would have to face. Frauds, including vendor frauds, thefts, shoplifting and inaccuracy in supervision and administration are the challenges that are difficult to handle. This is so even after the use of security techniques, such as CCTVs and POS systems. As the size of the sector would increase, this would increase the number of thefts, frauds and discrepancies in the system.