CHAPTER-2

RESEARCH METHODOLOGY

• OBJECTIVES
• HYPOTHESIS
• METHODOLOGY AND DATA COLLECTION
• FUNCTIONS OF CHANNEL
• PATTERNS OF CHANNEL
• REVIEW OF LITERATURE
• DESIGNING OF MARKETING CHANNEL
A marketing channel is a set of interdependent organizations involved in the process of making a product or service available for consumption. The research provides an understanding of how companies and other organizations can effectively and efficiently use sales channels to transmit things of value from points of production to points of consumption. We will analyze and evaluate the design and management of such channels. An analysis of the constraints and opportunities facing a firm that distributes its product will enable us to gain a comprehensive understanding of this important aspect of marketing channels.

1. OBJECTIVES

There is general agreement that the distribution channel is the key to any company's success in Indian market. Nonetheless, distribution is always cited as one of the most serious problems for marketers that operate in India. One of the reasons contributing to the difficulties in managing channels in India is that they are so different from other western channels, thus difficult to understand. This research provides detailed information about distribution channels in India include wholesaling, retailing from the perspective of consumers to business students, managers and scholars who are interested in marketing in India.

1.1 THE RESEARCH GOALS AND OBJECTIVES

- Recall the meaning of channels of distribution with definitions of many authors;
- Explain what a marketing channel is and why intermediaries are needed;
- Identify the various channels of distribution with the help of a chart;
- Know why companies use distribution channels and understand the functions that these channels perform.
- To identify the types of Marketing channels;
- Discuss the importance of marketing channels of distribution;
- Know why Selection of marketing channels are so important;
- Prepare a list of factors to be considered before choosing a suitable channel of distribution.
- Who are Marketing Middlemen? Explain with various factors;
- Analyse the nature and classification of Marketing Middlemen;
- The importance of Middlemen to a product's success and the importance of selecting and maintaining Middlemen;
- The functions, advantages and disadvantages of various kinds of Middlemen;
- Describe the role of middlemen in the distribution of goods;
• State the desirability of eliminating the middlemen;
• Define the Wholesaling and Retailing. Describe their various activities;
• Enumerate the types, role and services of wholesaler and retailer in distribution of goods;
• Evaluate the factors suggesting type of Wholesaler to use;
• Classified the Retail operations;
• Explain the role of specialised retail outlets e.g., departmental stores, specialty stores, off price stores, etc.;
• Learn how channel members interact and how they organize to perform the work of the channel.
• Know the major channel alternatives that are open to a company.
• Comprehend how companies select, motivate and evaluate channel members.
• To understand the structure, functions, design, Implementation, and the role of marketing channels in the firm’s overall strategy.
• How distribution Patterns affect the various aspects of Domestic marketing;
• The decisions involved in designing a channel of distribution;
• To familiarize with terms and concepts relating to distribution that is significant in the field of Marketing Channels;
• To identify and analyze the relationships of these concepts with one another and with channels integrations and systems;
• To demonstrate through case analyses and other assignments the application and use these concepts in marketing situations;
• To study different types of channel institutions and explore the newly established channels;
• Describe the channel structures for consumer and products and discuss alternative channel arrangements;
• To examine the Major levels of Marketing coverage;
• To explore the concepts of Sub-Divisions of Marketing channels;
• To examine the legal issues affecting Marketing channels Management;
• Legal considerations and channel arrangements;
• Appreciating the inter-dependence and relationship amongst channels of distribution;
• Describe intensive, selective and exclusive distribution;
• To analyze selection, motivation of channel members and managing conflict;
2. HYPOTHESIS

“A research hypothesis is the statement created by a researcher when they speculate upon the outcome of a research or experiment.”

2.1 CONTEXT

A hypothesis must be testable, but must also be falsifiable for it’s acceptance as true science. A hypothesis must be testable, taking into account current knowledge and techniques, and be realistic. If the researcher does not have more budget then there is no point in generating complicated hypotheses. A hypothesis must be verifiable by statistical and analytical means, to allow a verification or falsification.

In fact, a hypothesis is never proved, and it is better practice to use the terms ‘supported’ or ‘verified’. This means that the research showed that the evidence supported the hypothesis and further research is built upon that. A research hypothesis, which stands the test of time, eventually becomes a theory, such as Einstein’s General Relativity. Even then, as with Newton’s Laws, they can still be falsified or adapted.

A hypothesis is a tentative expression of an expected relationship between two variables. When a hypothesis is used, the purpose of the study is to find out whether or not the hypothesis is supported by the data. Several steps are involved in stating a hypothesis:

- Deriving the hypothesis from a theoretical framework;
- Designating the independent and dependent variables in the hypothesis; and
- Stating the hypothesis.

2.2 SAMPLING FRAME

The hypotheses were tested by a cross-sectional field study in India. The population was comprised of dealers of electric lamps and lighting equipment. The dealers were surveyed about their communication patterns with their major (largest) suppliers. The wholesaler, retailer, or some other agents in each dealership who was primarily responsible for communicating with suppliers was asked to complete the survey instrument. Questionnaires were sent to 252 dealers who were all members of at least one of several light dealers’ associations in India, in and around the major metropolitan centers of Delhi, Mumbai, Chennai, Bangalore, and Kolkata. The mail survey method was not used since in India, like in many other developing countries, frequent delays in mail service are common and, also, businesspeople are generally reluctant to respond to mail surveys. Therefore, survey questionnaires were personally delivered to the dealers and collected from those who agreed to respond by a group of graduate student interns. Ninety-three usable responses were returned by Indian dealers, thus yielding a response rate of 36.9 percent. Eighty-seven (93.5%) of the respondents were middlemen of their dealership businesses, while the remaining six (6.5%) were consumers. The average dealership was in business for 10.7 years.
2.21 DIRECT VERSUS INDIRECT SYSTEMS

In designing a distribution system, a manufacturer must make a policy choice between selling directly to customers and employing salespeople and using intermediaries i.e. selling through agents, wholesalers and retailers. Initially, the decision is usually based on cost factors: Distribution costs are largely a function of:

- If the manufacturer has a large enough potential sales volume, there may be a strong case for selling direct and employing a sales force. The number of potential customers in the market;
  - how concentrated or dispersed they are;
  - how much each will buy in a given period;
- Costs associated with the practical side of the distributive operation (e.g. transport, warehousing and stockholding all of which are dealt).

Industrial goods manufacturers tend to use direct selling and often deliver direct to the user/customer, although in some cases wholesalers or ‘factors’ are used. Consumer goods manufacturers tend to use a network of marketing intermediaries because of the dispersion and large numbers of potential customers. Again, there are exceptions (e.g. Avon Cosmetics who sell direct to homes through agents). Most often, manufacturers will sell to wholesalers who, in turn, break bulk, add on a mark-up and sell to retailers. However, with the increased size and power of the large food multiples, manufacturers sell direct to them and they perform their own wholesaling function. Whether selling through retail chains, or wholesalers then retailers, the important point is that the manufacturer relies on these middlemen for ultimate marketing success, as it is these intermediaries who have the responsibility of taking the product to the ultimate consumer.

2.22 RETAILERS VERSUS DISTRIBUTORS OR WHOLESALERS

One of the most dramatic differences between retailers and distributors or wholesalers is in approaches to credit (Finances). Granting and managing credit policies is a function of great importance to the end customer and, therefore, high value to the manufacturer. Even the large retailers with a focus on business customers have restricted the use of traditional credit lines and open accounts. Rather they force many customers, especially the smaller and less creditworthy ones, to use bank credit cards for purchases. As a result, retailers can reduce receivables by over 25 days and pass-off the credit screening function to credit card issuing banks. Retailers pay a steep (but largely hidden) price to eschew the credit activity in the form of a discount of 2-3% deducted from revenues on their credit transactions. Since granting trade credit is a major source of financing for many businesses, retail channels will need to meet this need in some form. Credit policies and practices will be a significant element in the competition between the distributor wholesaler and retail channels as both seek to find solutions which meet customer needs and generate sufficient returns for the credit activities.

To succeed, any firm should make their products available to the consumer at right size, at the right time and at the right price. Distribution reach is therefore one of the key competitive advantages a firm develops over a period of time and it acts as an entry barrier to future competition.
2.23 DISTRIBUTORS VERSUS SALES REPRESENTATIVES

Distributors are often confused with sales representatives, but there are critical differences. Typically, a distributor buys the product from the manufacturer, at wholesale prices, with title passing to the distributor when payment is received. There is usually no actual fee paid by the distributor for the grant of the distributorship, and the distributor will typically be permitted to carry competitive products. The distributor is expected to maintain some retail location or showroom where the manufacturer’s products are displayed. The distributor must maintain its own inventory storage and warehousing capabilities.

The distributor looks to the manufacturer for technical support, advertising contributions, supportive repair, maintenance, service policies, new product training, volume discounts, favorable payment and return policies, and brand name recognition. The manufacturer looks to the distributor for in-store and local promotion, adequate inventory controls, financial stability, preferred display and stocking, prompt payment, and qualified sales personnel. Although the distributorship network offers a viable alternative to franchising, it is not a panacea. The management and control of the distributorship may be even more difficult than that involved in franchising (especially without the benefit of a comprehensive franchise agreement), and many state anti-termination statutes regulate the termination of these relationships.

By contrast, the sales representative or sales agent is an independent marketing resource for the manufacturer. The sales representative, unlike the distributor, does not typically take title to the merchandise, maintain inventories or retail locations, or engage in any special price promotions unless instigated by the manufacturer. A well-drafted distributorship agreement should address the following issues:

- What is the scope of the appointment? Which products is the dealer authorized to distribute and under what conditions? What is the scope, if any, of the exclusive territory to be granted to the distributor? To what extent are product, vendor, customer, or geographic restrictions applicable?
- What activities will the distributor be expected to perform in terms of manufacturing, sales, marketing, display, billing, market research, maintenance of books and records, storage, training, installations, support, and servicing?
- What obligations will the distributor have to preserve and protect the intellectual property of the manufacturer?
- What right, if any, will the distributor have to modify or enhance the manufacturer’s warranties, terms of sale, credit policies, or refund procedures?
- What advertising literature, technical and marketing support, training, seminars, or special promotions will the manufacturer provide to enhance the performance of the distributor?
- What sales or performance quotas will be imposed on the dealer as a condition to its right to continue to distribute the manufacturer’s products or services? What are the rights and remedies of the manufacturer if the dealer fails to meet these performance standards?
Hindustan Lever Limited (HLL) is India's largest fast moving consumer goods company, with leadership in Home & Personal Care Products and Foods & Beverages. HLL's brands, spread across 20 distinct consumer categories, touch the lives of two out of three Indians. They endow the company with a scale of combined volumes of about 4 million tones and sales of Rs.10000 crores. HLL's distribution network is recognized as one of its key strengths -- that which helps reach out its products across the length and breadth of this vast country. The need for a strong distribution network is imperative, since HLL's corporate purpose is “to meet the everyday needs of people everywhere.” HLL’s products, manufactured across the country, are distributed through a network of about 7,000 redistribution stockiest covering about one million retail outlets. The distribution network directly covers the entire urban population.

In addition to the ongoing commitment to the traditional grocery trade, HLL is building a special relationship with the small but fast emerging modern trade. HLL's scale enables it to provide superior customer service including daily servicing, improving their range availability whilst reducing inventories. HLL is using the opportunity of interfacing more directly with consumers in this retail environment through specially designed communication and promotions. This is building traffic into the stores while yielding high growth for the business.

An IT-powered system has been implemented to supply stocks to redistribution stockiest on a continuous replenishment basis. The objective is to catalyze HLL’s growth by ensuring that the right product is available at the right place in right quantities, in the most cost-effective manner. For this, stockiest have been connected with the company through an Internet-based network, called RS Net, for online interaction on orders, dispatches, information sharing and monitoring. RS Net covers about 80% of the company’s turnover. Today, the sales system gets to know every day what HLL stockiest have sold to almost a million outlets across the country. RS Net is part of Project Leap, HLL’s end-to-end supply chain, which also includes a back-end system connecting suppliers, all company sites and stretching right upto stockiest. RS Net has come as a force multiplier for HLL Way, the company's action-plan to maximize the number of outlets reached and to achieve leadership in every outlet, by unshackling the field force to solely focus on secondary sales from the stockists to retailers and market activation. HLL Way has also led to implementing best practices in customer management and common norms and processes across the company. Powered by the IT tools it has further improved customer service, while ensuring superior availability and impactful visibility at retail points. For rural India, HLL has established a single distribution channel by consolidating categories. In a significant move, with long-term benefits, HLL has mounted an initiative, Project Streamline, to further increase its rural reach with the help of rural sub-stockists. It has already appointed 6000 such sub-stockists. As a result, the distribution network directly covers about 50,000 villages, reaching about 250 million consumers.

Distribution will acquire a further edge with Project Shakti, HLL's partnership with Self Help Groups of rural women. The project, started in 2001, already covers over 5000 villages in 52 districts of Andhra Pradesh, Karnataka Madhya Pradesh and Gujarat, and is being progressively extended. The vision is to reach over 100,000 villages, thereby touching about
100 million consumers. The SHGs have chosen to adopt distribution of HLL's products as a business venture, armed with training from HLL and support from government agencies concerned and NGOs. A typical Shakti entrepreneur conducts business of around Rs.15000 per month, which gives her an income in excess of Rs.1000 per month on a sustainable basis. As most of these women are from below the poverty line, and live in extremely small villages (less than 2000 population), this earning is very significant, and is almost double of their past household income. For HLL, the project is bringing new villages under direct distribution coverage. Plans are being drawn up to cover more states, and provide products/services in agriculture, health, insurance and education. This will both catalyse holistic rural development and also help the SHGs generate even more income. This model creates a symbiotic partnership between HLL and its consumers, some of whom will also draw on the company for their livelihood, and helps build a self-sustaining virtuous cycle of growth.

2.25 ANALYSIS & EVALUATION OF DISTRIBUTION CHANNELS IN PRECIOUS & SEMI PRECIOUS STONES

The project involved analyzing and evaluating distribution channels of various companies belonging to this sector.

METHODOLOGY
This research comprised of activities like listing down various agencies like manufacturers, distributors, etc and also chambers and libraries like the Indian merchant chambers and interacting with them in order to gather first hand information.

PRECIOUS AND SEMI PRECIOUS STONES

The Indian Gems and Jewellery industry is an age old industry and comprises mainly of two types of markets, viz the organized sector and the unorganized sector. The organized sector with branded jewelers, Public Sector Units (PSUs), etc forms only 10% of the precious and semi-precious stones market, whereas, the unorganized sector forms 90% of the gems and jewellery market in India. The unorganized sector employs around 1.5 million workers serving over 0.1 million gold jewelers and over 8000 diamond jewelers. Precious and semi-precious stones industry is a significant earner of foreign exchange. This sector contributes around 17% of India’s exports. The bulk of the Indian gems and jewellery exports comprise imports of rough diamonds, cutting and polishing in India, and re-exports. Cut and Polished Diamonds (CPD) and gold Jewellery account for nearly 95% of India’s gems and jewellery exports. India is the world’s leading diamond cutting and polishing center, accounting for 53% share of the global polished diamond market in terms of value. India imports gold from South Africa, Switzerland, Australia, Hong Kong and UAE.

The domestic consumption of diamonds have been 626.9 crores in 2001-02 to 483.4 crores in 02-03 and reached and all time high of 1771.3 crores in 2003-04 and the trend has continued in 2004-05 as well. The market size has also witnessed a rise of around 10% in 2003-04 over 2002-03. The value of domestic sales has been 7200 crores, 7400 crores and 7650 crores in 01-02, 02-03 & 03-04 respectively. Exports of cut and polished diamonds has been 5892, 7385 and 8240 million dollars in 01-02, 02-03 & 03-04 respectively, whereas, exports of Jewellery studded with diamonds has been 553, 719 and 934 million dollars in 01-02, 02-03 & 03-04 respectively.
Consumer Demographics & Buying Patterns of Indian Consumers

There is a very high consumption in the western and the northern markets of India, viz, Mumbai and New Delhi, New Delhi being the leader. In India, the purchase of Jewellery is quite seasonal and occasion driven. There is a higher consumption during festivals like Diwali, Dassera, Ganesh Chaturthi, etc. and also during the marriage season, which is spread from November to March.

Mechanics of Distribution Channels of Sector

Since precious and semi precious stones industry is divided into organized and unorganized sector, the mechanics of the distribution channels of the players belonging to these sectors has also been different. Domestically, the branded jewelers of the organized sector cater to the consumers via a 1 or a 2 level supply chain which comprise of either only franchise retail outlets and other retails or wholesalers and then retailers. The players of the unorganized sector, on the other hand, either plainly sell their manufactured products to retailers or have branch offices in cities where the products are transferred and sold to end consumers or to retailers in the particular city. Raw diamonds and other Jewellery is imported from sources, manufactured and polished here and either shipped or transported by air to the final destination in exported countries the products are either transferred to retailers who are clients or to branch office who in turn sell it to the retailers.

Whether domestic sales or exports, overall, the levels of intermediaries in the gems and Jewellery industry do not really exceed 2 to 3 levels.

This report contains detailed analysis of renowned Gems and Jewelery companies.

2.4 In the Indian context the strategy for consumer goods marketers, I would recommend the following.

Step I: Invest heavily (in terms of time, and some money) in getting a deeper understanding of the fundamental shifts in the Indian economy (age- and income-profile of consumers across regions), and in Indian consumers (demographic, social, educational, lifestyle, aspirational). An understanding of the causes of the shifts (such as education, work profile, access to information, national and international exposure) is also essential.

Step II: Use this newly acquired knowledge to spot current (latent or overt) and emerging consumer needs, wants, and desires and then have a team (internal/external) brainstorm to put some estimates on the volume and value of potential spending from various sub-segments of consumers for these current or emerging business opportunities.

Step III: Go back to the drawing board to make a serious effort to come out with products or services that are "custom" designed for these specific sub/micro consumer segments with an objective to provide a cost- and time-effective solution for these unmet needs. Adapting existing products may not yield the desired results, and just replacing one advertising film with another or tinkering with pricing may yield only temporary results.

Step IV: Devise the appropriate strategy to deliver highly personalised messages to small customer groups (or even individual customers, if so needed).
In the current context, multiple channels have to be used for communicating, including the print and electronic media, Internet, demonstration/user trials in high-target customer traffic areas, direct mailers, etc.

Marketing organisations must build internal competencies to understand the role technology can play in identifying such micro customer segments and the needs of these customers, as well as in communicating the marketers' message to the targeted segments. Unfortunately, so far, most marketers have chosen highly intrusive and largely ineffective carpet-bombing tools such as the obnoxious cell phone-based tele-marketing, or paper/email-based spamming. It seems that very few companies in India have realised the potential of the Internet as an effective medium to build one-to-one relationships with potential and existing customers. Much more can be done using this powerful channel, provided companies spend enough time to think through this innovatively and meticulously.

In the precision-marketing philosophy, companies tend to focus on optimising the "lifetime" value of such acquired customers/customer segments, and utilise the very precise information obtained from nurturing such an intimate relationship, to either acquire new customers through the process of referrals or by way of cross-selling other value-added products and services. Hence, the marketing effort has to sustain beyond a mere initial acquisition of customers.

3. METHODOLOGY AND DATA COLLECTION

3.1 CONTEXT

The methodology used was at first a review in channels of distribution, transaction cost economics and contracts literatures. And then, for the analysis of the relationship between companies, personal interviews were taken with six specialists in this sector. A questionnaire was made to help in the interviews. So, it is shown a revision of the literature, introduction the concepts and functions of the channels of distribution, as well as a theoretical referential of transaction characteristics, contracts and forms of relationships.

Research methodology is a scientific and systemic way to solve research problems. I designed my methodology i.e. in addition to the knowledge of methods, techniques, I applied the methodology as.

Well. The methodology may differ from problem. Thus, the scope of research methodology is wider than research methods. In a way research methodology deals with the research methods and takes into considerations the logic behind the methods, I used.

I adopted following research methodology during the course of this research:

- The research is based on case study and survey method.
- Various libraries is visited and consulted by me.
- I conducted direct personal interviews with the manufacturer, wholesaler, retailer and consumers.
- To facilitate direct personal interviews I prepared questionnaire regarding information to be sought from the persons interviewed.
- Wide use of Internet is done.
- An open survey is conducted among the consumers to ascertain their level of satisfaction regarding channels of distribution.
Interview is conducted on line also.
I used secondary data also. Case is taken such data is standard and reliable the source of such data be various magazines, journal, periodicals, official record and annual reports of concerned organizations.
The research is applied various statistical tools in analyzing and interpreting research data.

Apart from lecture cum discussion, role plays, case studies and sharing of experiences will be used to effectively enhance the learning experience.

3.2 METHOD

This is an exploratory and qualitative study. In research that the objective is to improve the general knowledge about a phenomenon, the exploratory studies are the most suitable. Hence, the research planning is flexible in order to allow me analyze several different aspects. The present study fits with this category. The Objective is to study some strategic and tactical issues with marketing channels of distribution from the perspective of consumers also retailers and wholesalers within service sector.

According to Yin (2002), the case study is a wide-ranging research method. This method is sometimes used in studies with focus in contemporaneous phenomena. This Characteristic fits with the present study. The objective is to identify and analyze relationships of marketing channels with one another with channels integration and systems. To examine some aspects that cause difficult in the marketing channel design but it does not intend to be conclusive or to discuss causal relations.

The case studies are indicated for exploratory research which the variables are not well-known and the phenomenon is not totally clear. This characteristic is coherent with the present study. It intends to identify problems but it does not intend to analyze each problem deeply. Thus, the contribution should be a list of suggestions for future studies. According to the objectives proposed for this study, the case study apparently is the best method to obtain data. Two reasons explain this fact. First, the phenomenon is contemporaneous. Second, the context is very complex. The case study was elaborated following the framework proposed by Voss et al (2002).

This framework involves nine steps:
1. Defining a semi structured list of questions;
2. Identifying the focal market;
3. Identifying the interviewee;
4. Scheduling the interview;
5. Studying the channels previously (secondary data);
6. Collecting primary data (interview);
7. Consolidating the data;
8. Analyzing the data;
9. Elaborating the final report.

A Middleman was interviewed. This executive has worked in marketing distribution for more than ten years in an important market. The main executive’s activities are related to middlemen functions, selection of channel, market coverage, consumer analysis, channel
design and administration. Thus, this executive is responsible not only for the marketing activities, but also for relationship activities with other distribution channel members and consumers.

It was used a semi-structured list of questions covering for sections to help with the interviews. They are the following:
1. Description of the distribution channel;
2. Description of the marketing activities of the interviewees;
3. Description of the services of marketing middlemen regarding consumers;
4. Description of the channel design process and channel patterns;
5. Identification of the features that make the channel conflict and key issues of determining channel requirements etc.;

The interviewees would be strictly involved with the management of the marketing channels. He was asked about problems to selection of suitable marketing distribution channels according to consumers of that market. The data were analyzed qualitatively and contrasted with the theory.

The study had gone to examine the formulated research questions and was utilized the survey method. Data was collected using structured questionnaires. The quantitative approach collected highly specific and precise data based on the measurements to upgrade the reliability of the findings. At the data collection stage, primary data was collected from producers, wholesalers, retailers and consumers through structured questionnaire. At the primary data collection stage, I had gone to meet with the individual producer in order to explain the research focus and to deliver the questionnaire. This produce was adopted because due to the possibility that they may not be familiar with completing questionnaires. Main reason for this approach is to develop the trust and loyalty in respondents’ mind. The secondary data was obtained from published reports of government and non-government institutions, related web sites and academic journals.

To examine the relationship between the independent, the intervening and the dependent variable, structural equation modeling was going to be applied. Structural Equation Modeling is a statistical technique for testing and estimating causal relationships using a combination of statistical data and causal assumptions. Before using the scores from any concept for analysis, researcher must ensure the accuracy and consistency of selected variables.

3.3 SOME CONCEPTS ABOUT DISTRIBUTION CHANNELS

A marketing channel is a set of independent organizations involved in the process of making a product or service available for use or consumption (Coughlan et al, 2005). Rosenbloom (2003) defines “Marketing Channel” as an external organization that is operated by a company in order to achieve its distribution goals. Thus, the distribution channel management is interorganizational (surpass the company’s border).

The institutions and individuals that facilitate the task of the manufacturer to distribute the products to their end consumers are called “intermediaries” or “middlemen”. In other words, the term “middlemen” refers to any distribution channel member located between the supplier and the end user (business consumer or individual consumer). There are three basic kinds of middlemen: wholesalers (in general, they sell products to other intermediaries firms); retailers (in general, they sell products straight to end consumers); and specialized firms (they work in a specific channel flow as a facilitator firm). The companies can structure
several kinds of distribution channels. They can sell their products straight to the end consumer without intermediaries or middlemen (e.g. a company sells on internet and has an own logistic system to deliver the products). In this kind of distribution the company does all distribution tasks (fulfil orders, delivery reliability, replacement guarantee, among others). On the other hand, it can have several intermediaries or middlemen firms (wholesalers, retailers, and specialized firms) between a supplier and the end consumers. Those firms can do different distribution tasks.

According to Kotler (2002), many companies use a multiple channel distribution system. Multiple channel system consists of utilization of two or more portfolios of channels to reach one or more segments of the market. The well-integrated multiple channel strategy can offer synergy. Some advantages can be gotten from this synergy, as increase in number of clients, turnover, and market share. Duffy (2004) increases this advantages list with the possibility of synergy between multi-channel strategy and brand equity. Finally, Coelho (2003) discusses about the role of the multi-channel strategy to decrease the distributors’ power.

On the other hand, Webb & Hogan (2002) stress that the multiple channel strategy can stimulate conflicts among channel members and then it can decrease the channel’s performance. Some kinds of conflicts can appear in the horizontal, the vertical or the multichannel structures among the members of the channel. The main causes for these conflicts are: incompatibility of goals (e.g. volumes and profits); lack of evidence in relation to the rights and the responsibilities of each member; differences in perception; differences in power and in dependence among companies. It can be found, in the literature, other sources of conflict like decision making responsibility and lack of communication among channel’s members. Otherwise, exclusivity in distribution of goods and exploitation of a specific geographic region can be sometimes factors that generate conflict. So, they must be carefully managed.

According to Friedman & Furey (1999), distribution partnerships are formed by many companies aiming to penetrate in dispersed markets and reach more consumers (increasing the turnover and the market share). The use of the power for a member of the distribution channel can intervene with the performance of other members of this channel. Hence, executives should analyze ways to avoid the wrong use of the power as well as alternatives to equilibrate the power in the distribution channel. The decisions related to channel power are basic to keep long term relationships among channel’s members. The maintenance of long term relationships is another important issue to establish efficient distribution channels. The partnerships among channel’s members can create collaborative behaviours which are considered important for global companies. However, high degree of commitment is not always necessary among channel’s members. In several cases, market exchanges is an efficient option when the distributors do not add significant value to the offer and can be easily changed, especially in homogeneous and steady markets.

3.4 MARKETING STRATEGY AND DISTRIBUTION CHANNEL DESIGN

Strategy can be defined as a behaviour pattern in the present with planned objectives, positioned resources, and interactions among a company and markets, competitors, and environment. A well-developed strategy must have five basic components: target, goals,
positioning, competitive advantage, and synergy (Walker et al, 2002). Thus, a strategy must create a sustainable competitive advantage through company’s internal definitions with focus on specific pair product / market. It is necessary to place the right resources for each pair product / market in function of the threats and opportunities proceeding from the environment.

LaBahn & Biehal (1991) separate, in terms of focus and time, the strategic business plan and the marketing plan. While the first focuses strategic aspects for whole company in the long term, the second focuses tactics aspects related to marketing-mix in the short term.

According to Sharma (2004), the functional strategies should be coherent with the business strategy. The company must have appropriated resources (human, physical, organizational, among others) and culture to support the strategies. Slater & Olson (2001) evaluated companies’ performance in function of their business and marketing strategies. These authors concluded that the more consistency between marketing and business strategies, the better performance can be observed.

Marketing strategy is the effective allocation and coordination of the marketing resources. It aims to achieve the company’s objectives in each specific pair product / market (Walker et al, 2002). In this direction, the strategic marketing decisions are related to identify specific market segments and the respective offerings to those segments. These same authors argue that the firms obtain competitive advantage and synergy through integrated programs between the marketing mix variables (product, price, communication, and marketing channels) and the consumer behaviour aspects.

In order to obtain consistency, the business plan should be translated to several functional strategies (marketing, human resources, finance, operations, and so on), and it must observe the existing interrelations. The marketing plan consists of combining the marketing mix variables in order to achieve the companies’ goals. Finally, the marketing channel management needs to translate the generic marketing strategy to specific distribution tactics. During this process, the vertical consistency (between operational marketing and strategic marketing – segmentation, targeting, and positioning) and the horizontal consistency (among the marketing mix variables) must be observed.

Coughlan et al (2005) propose an analytical model to design and manage marketing channels. According to this model, the marketing channel design process evolves activities as analysing the customer needs and the services required by different market segments, identifying the channel flows, defining the channel members, establishment of channel portfolios (simple or multiple), system coordination, gap analysis, and vertical integration decisions (make or buy). In the implementation phase, the following aspects should be analyzed: the use of power among channel members, the management of conflicts, strategic alliances, and legal issues. Thus, the marketing channel plan involves the design, implementation, and control processes.

Channel design involves every processes of creation or modification of a channel. If the company considers this process as a strategic issue, it will aim to create sustainable competitive advantage. According to Rosenbloom (2003), the channel design goes through seven steps: (1) recognition of the needs to create or modify a channel; (2) definition and coordination of the distribution goals; (3) specification of distribution tasks; (4) development of alternatives for channel structure; (5) evaluation of the variables that affect the structure;
(6) definition of the best structure; (7) selection of channel members. The last step of the marketing channel design is the channel's member selection. According to Rosenbloom (2003), the channel’s member definition process involves the identification, selection, and transformation of the potential members in real members. The companies use many aspects to evaluate possible distribution partners, such as: financial and credit conditions; sales force, products lines (competitive and complementary); reputation, market coverage; sales performance; administrative succession; managerial skills; attitude (sales efficiency, motivation, among others); company's size.

A distribution channel selection process was proposed by Mallen (1996). This process is constituted by six steps. First, decisions related to five questions should be made: (1) What degree of directness should the company's channel structure have? (2) How selective should the distribution channel be? (3) What type or types of middlemen are to be selected? (4) How many channels should be established for a given product? (5) How shall the individual middlemen be chosen to fill the slots created? Second, the company must define objectives related to four dimensions: (1) maximize sales; (2) minimize cost; (3) maximize channel goodwill; (4) maximize channel control. Third, it must be analysed the internal and external factors which are important to the process. These factors are the market, the marketing mix, the available resources, and the macro environment. Fourth, the options should be quantified. Fifth, the company should select one specific distribution model among the options. Finally, the company should develop the channel review and evaluation process.

3.5 SETTING CHANNEL OBJECTIVES AND CONSTRAINTS

Channel objectives should be stated in terms of the desired service level of target consumers. Usually, a company can identify several segments wanting different levels of channel service. The company should decide which segments to serve and the best channels to use in each case. In each segment, the company wants to minimize the total channel cost of meeting customer service requirements. The company's channel objectives are also influenced by the nature of the company, its products, marketing intermediaries, competitors, and the environment. For example, the company's size and financial situation determine which marketing functions it can handle itself and which it must give to intermediaries. Companies selling perishable products may require more direct marketing to avoid delays and too much handling. In some cases, a company may want to compete in or near the same outlets that carry competitors' products. In other cases, producers may avoid the channels used by competitors. Avon, for example, set up a profitable door-to-door selling operation rather than going head to head with other cosmetics makers for scarce positions in retail stores. Finally, environmental factors such as economic conditions and legal constraints may affect channel objectives and design. For example, in a depressed economy, producers want to distribute their goods in the most economical way, using shorter channels and dropping unneeded services that add to the final price of the goods.

Several researches in the recent marketing literature have suggested that delegation in distribution (e.g., the use of independent middlemen) helps manufacturers to recrims
strategically to profit-enhancing competitive actions. Further, the literature suggests that the profitability of such actions depends on market structure. We challenge these conclusions here. This is done in two steps. First, we perform an analysis of the entire class of models which have been used in the literature. Using internally consistent assumptions about market structure and contracting, the only sub game perfect equilibrium is one in which all distribution channels have infinitely many levels of delegation. Obviously, this is not what we see in the real world. Next, we relax a key hidden assumption, namely that all intra-channel agreements are observable to competitors. Without this assumption, the usual results unravel. Unless channel members can offer credible guarantees that unobservable agreements do not exist, the strategic effects of delegation disappear. Since these guarantees are virtually impossible to maintain credibly, we would expect to reject the hypothesis in the earlier literature relating channel structure to competition in an empirical study controlling for observability. We conclude that mechanisms other than strategic ones must be responsible for the existence of delegated channels, and make some suggestions about promising avenues for future theory research in channel structure.

4. FUNCTIONS OF CHANNEL

4.1 INTRODUCTION

First at all, a marketing channel is a set of interdependent organizations involved in the process of making a product or services available to users. Usually, producers would establish marketing channels for a variety reasons, such as producers lack of financial resources necessary for direct market, direct marketing is not feasible for many offering, using channels free money for investment in main business or maybe intermediaries are more efficient.

In other way, A distribution channel can be defined as: "all the organizations through which a product must pass between its point of production and consumption". Looking at that definition, you can see that a product might pass through several stages before it finally reaches the consumer. The organizations involved in each stage of distribution are commonly referred to as "intermediaries". Why does a business give the job of selling its products to intermediaries? After all, using an intermediary means giving up some control over how products are sold and who they are sold to. An intermediary will also want to make a profit by getting involved.

The answer lies in efficiency of distribution costs. Intermediaries are specialists in selling. They have the contacts, experience and scale of operation which means that greater sales can be achieved than if the producing business tried to run a sales operation itself. Customers themselves often wish to buy from specialist sellers. They appreciate the range of products and brands offered by a specialist intermediary like a retailer. The customer may need specialist advice on making the final choice.

Distribution is one of the four elements of the marketing mix, the other three being product, pricing and promotion. This marketing mix is also referred to as the four Ps of marketing; distribution is here called physical distribution or place. Simply put, distribution is the process of delivering the products manufactured or service provided by a firm to the end user. Various intermediaries are involved in this process. This chain of intermediaries which helps in transferring the product from one intermediary to the next before it reaches
the end user is called the Distribution Chain or Distribution Channel. Each intermediary has a specific role and need which the marketer caters to. Distribution channels are not limited to products only even the services provided by a producer may pass through this channel and reach the customer. Both direct and indirect channels come into use in this case. For instance, the hotel industry provides facility for lodging to its customers, which is a non-physical commodity or a service. The hotel may provide rooms on direct booking as well as through indirect channels like tour operators, travel agents, airlines etc. Distribution chain has seen several improvements in the form of franchising. Also there has been link ups between two service sectors like travel and tourism which has made services available more accessible to the customer. For instance hotels also provide cars on rent.

In addition, the products been moved by the marketing channel members from producers, importers, and aggregators, among others, to end-consumers. This defeats the main time, place and ownership gaps that separate goods and services from those users. Marketing channel members perform a number of key functions, and commonly these key functions include eight different functions, which are information, promotion, contact, matching, negotiation, physical distribution, financing and risk taking.

The main function of a distribution channel is to provide a link between production and consumption. **Organizations that form any particular distribution channel perform many key functions:**
- **Information** = Gathering and distributing market research and intelligence - important for marketing planning;
- **Promotion** = Developing and spreading communications about offers;
- **Contact** = Finding and communicating with prospective buyers;
- **Matching** = Adjusting the offer to fit a buyer's needs, including grading, assembling and packaging;
- **Negotiation** = Reaching agreement on price and other terms of the offer;
- **Physical distribution** = Transporting and storing goods;
- **Financing** = Acquiring and using funds to cover the costs of the distribution channel
- **Risk taking** = Assuming some commercial risks by operating the channel (e.g. holding stock)

### 4.2 ESSENTIAL CHANNEL FUNCTIONS

- **RISK TAKING**
- **FINANCING**
- **PHYSICAL DISTRIBUTION**
- **NEGOTIATION**
- **INFORMATION**
- **PROMOTION**
- **CONTACT**
- **MATCHING**

All of the above functions need to be undertaken in any market. All use up scarce resources, All may often be perform better through specialization and All can often be shifted among
channel members. The question is - who performs them and how many levels there need to be in the distribution channel in order to make it cost effective. Information mainly talked about to gather and to distribute the marketing research and intelligence to integrate information and interpret information about actors and forces in the marketing environment that needed for planning and aiding exchange. Next, promotion describes developing and disseminating convincing communications about the products that being offered to the users. Then, contact can be defined as finding the prospective buyers and communicating with them about an offer. Subsequently, matching including an activities like manufacturing, importing, grading, assembling and packaging. Simple to say, it means shaping and fitting the offer to the buyer’s needs. Besides, negotiation is the process of accomplishment an agreement on price and other terms of the offer so that ownership can be transferred. Furthermore, physical distribution describing store and move the physical products. And, financing can be defined as obtaining and using funds cover the costs of channel work and, Risk taking: assuming the risks the channel work.

The primary function of a CHANNEL OF DISTRIBUTION is to provide a link between production and consumption by filling any gap or discontinuity which exists between them. Discontinuities between producers and consumers may arise from a number of causes, including the following: (a) geographical separation; (b) time (production and consumption rarely occur simultaneously, with the exception of personal services, and channels of distribution help even out fluctuations in supply and demand by holding stocks and through the provision of credit); (c) information; (d) ownership (in addition to making goods physically available (possession) channels also provide the mechanism whereby transfer of the legal title to ownership may be accomplished); (e) sorting.

Distribution channel provide a number of functions that make possible the flow of goods from the producer to the customer. These functions must be handled by someone in the channel. Though the type of organization that performs the different functions can vary from channel to channel, the function themselves cannot be eliminated. Channels provide time, place and ownership utility. They make product available when, where and in the sizes and quantities that customers want. Distribution channels provide a number of logistics or physical distribution functions that increase the efficiency of the flow of goods from producer to customer. Distribution channels create efficiencies by reducing the number of transactions necessary for goods to flow from many different manufacturers to large number of customers. This occurs in two ways. The first is called breaking bulk. Wholesalers and retailers purchase large quantities of goods from manufacturers but sell only one or a few at a time to many different customers. Second, channel intermediaries reduce the number of transactions by creating assortments—providing a variety of products in one location—so that customers can conveniently buy many different items from one seller at one time. Channels are efficient. The transportation and storage of goods is another type of physical distribution function. Retailers and other channel members move the goods from the production site to other locations where they are held until they are wanted by customers. Channel intermediaries also perform a number of facilitating functions, functions that make the purchase process easier for customers and manufacturers. Intermediaries often provide customer services such as offering credit to buyers and accepting customer returns. Customer services are
oftentimes more important in B2B markets in which customers purchase larger quantities of higher-priced products.

Some wholesalers and retailers assist the manufacturer by providing repair and maintenance service for products they handle. Channel members also perform a risk-taking function. If a retailer buys a product from a manufacturer and it doesn’t sell, it is “stuck” with the item and will lose money. Last, channel members perform a variety of communication and transaction functions. Wholesalers buy products to make them available for retailers and sell products to other channel members. Retailers handle transactions with final consumers. Channel members can provide two-way communication for manufacturers. They may supply the sales force, advertising, and other marketing communications necessary to inform consumers and persuade them to buy. And the channel members can be invaluable sources of information on consumer complaints, changing tastes, and new competitors in the market.

We may classified functions of marketing distribution channel as these also:

1. Utility Creation – Middlemen creates time, place & ownership utility for the customer, that’s why they purchase the product.
2. Demand Forecasting – Middlemen helps in deciding the level of production (demand forecasting) by seeing the trend in the market.
3. Finance management—To arrange finance for the producer time to time is one of the major function of distribution channel. Examples are advance payments as security etc. which is exercised by Hindustan Lever Ltd, as it gives stock to its distributors on advance payments (in the form of post dated cheques).
4. Pricing – The marketing channels process to be an important source of information for the producer. So when he sets price of the product he takes care of the knowledge, experience & suggestion of the mediator regarding how much a consumer is ready to pay for the product.
5. Routinization of decisions—There are numerous decisions which a product has to take related to production & distribution of his product when distribution channel is set up. These decisions become easy to take on the basis of the demand of products forecasted by the middlemen
6. Aids in communication – Since the mediators have a direct contact with the market, they have complete information about the market demand, interests fashion & needs of the consumers.
7. Service to consumers – After sale services to the consumers is a very important function of marketing. It gives the consumer a tremendous series of satisfaction which is the most important part of the concept of marketing.
8. Promotional activities – The produce gives commission, decorative items as gifts, points of purchase materials, relates etc to middlemen so that he can sell more & more which in turn is beneficial for the producers.

The most common intermediaries in a distribution channel are wholesalers, retailers and agents or brokers. Manufacturers may work with all of them, and intermediaries may also work with each other. All perform a variety of functions that help create value for consumers and bring about the profitable exchange of goods. These functions generally fall
into three categories: Transactional, logistical and facilitating.

4.3 MARKETING CHANNEL FUNCTIONS PERFORMED BY INTERMEDIARIES

THREE BASIC CATEGORIES OF CHANNEL

- TRANSACTIONAL FUNCTIONS
  - CONTACTING/RESEARCHING
  - PROMOTION
  - NEGOTIATING
  - RISK TAKING

- FACILITATING FUNCTIONS
  - RESEARCHING
  - FINANCING
  - GRADING

- LOGISTICAL FUNCTIONS
  - PHYSICAL DISTRIBUTION
  - STORING
  - SORTING

TRANSACTIONAL FUNCTIONS-

The transactional functions of intermediaries involve buying, selling and risk taking. Wholesalers or agents buy products from manufacturers in sufficient quantities to stock the shelves of multiple stores. They promote the goods to build sales, using personal salespeople and various marketing communication devices aimed at retailers. While buying and selling, all intermediaries take a measure of risk. That is because the inventory they stock in their warehouses can lose competitive appeal or become obsolete before it is sold.

This function involves adding value to the distribution channel by bringing in the intermediary's resources to establish market linkages and customer contacts. The intermediary either directly undertakes the marketing and sales function or helps to establish buyer-seller relationships by serving as a link between the manufacturer and the retailer.

- Buying: Purchasing products for resale or as an agent for supply of a product.
- Selling: Contracting potential customers, promoting products and soliciting orders.
- Risk taking: Assuming business risks in the ownership of inventory that can become obsolete or deteriorate.
- Making contact with buyers;
- Using communication strategies to make them aware of products:

Two examples of communication strategies is the promotion of a website via www. did- it. com

Shopping agents such as www. comparenet. com allow the consumer
to rapidly compare prices and features within product categories;

-Matching products to buyers’ needs:
  • Shopping agents
  • Collaborative filtering agents

-Negotiating prices;
-Processing transactions;

Transactional function refer to the buying, selling and risk taking undertaken by channel member- the manufacturers or resellers who buy in order to resell the products or promote products to potential customer and then take orders from these customers. Risk- taking forms part of such transactions because the business owning the products can make a loss due to obsolescence, or the products can deteriorate or become damaged, thus lowering their value.

LOGISTICAL FUNCTIONS-

Most mass market products must be manufactured in large quantities to achieve economies of scale, but few producers can afford to store their inventories or ship small numbers of items to individual consumers. Instead, they rely on intermediaries to perform these and other logistical functions. For example, frozen food manufacturers ship to supermarkets, not direct to consumers’ homes. Book publishers rarely sell to bookstores; they do business primarily with book wholesalers, who assemble large assortments of new releases and then distribute them in accordance with reader demand.

This function involves the physical distribution of goods. It involves sorting and storing supplies at locations within the reach of the end customer. It also breaks up the bulk production of the manufacturer into smaller portions and may include the transportation of smaller shipments to intermediaries or retailers further down the channel of distribution.

Assorting: Creating Product assortments from several sources to serve customers.

Storing: Assembling and protecting products at a convenient location to offer better customer service.

Sorting: Purchasing in large quantities and breaking into smaller amounts desired by customers.

Transporting: Physically moving a product to customers.

The physical distribution such as transportation and storing inventory, often outsourced to third party logistics providers. www.ups.com and www.fedex.com are the major distributors and even offer packaging that is specific to products their clients sell. It is also beneficial for firms to outsource their entire order processes, to ensure timely delivery of stock.

-Physical distribution
- Aggregating products (category killers)
-Third-Party logistics (outsourced logistics)

Logistical functions refer to the movement of products and the combining of products in manageable quantities to make them easier to buy. Part of the process involve the concentration and rearrangements which means bringing together products from various manufacturers and placing them under one roof (for example, a wholesaler buys products from various manufacturers inside and outside India and brings them together to sell).
Storing means that sufficient stock is carried and that the stock is protected in a way that fulfills consumer needs. Sorting or accumulation means bringing similar products (for example, different brand name washing powders) together as part of the range of merchandise being sold. Another part of sorting is allocation which means that a large quantity of products is broken down into smaller lots. Physical distribution implies moving the product from where it was manufactured, inventory management and order processing.

FACILITATING FUNCTIONS-

Facilitating functions include various activities performed by intermediaries to make exchanges easier for consumers. This often involves collecting and disseminating information. For example, brokers who buy fresh beef or pork from ranchers inspect and grade the meat to enable buyers to accurately compare alternatives. Fruit and vegetable wholesalers sort and certify the freshness of produce. Another facilitating function is the provision of credit and other financial services. This is especially important among retailers, who commonly issue credit cards and offer layaway programs.

Although often confused with logistics, the facilitating functions of intermediaries supplement the entire marketing flow of the product and are separate from logistics. The facilitating functions include financially supporting the marketing chain by investing in storage capabilities. They may include facilitating sales by helping the consumer buy even when he or she does not have cash (through financing plans, purchase agreements, etc.)

- Financing: Extending credit to customers.
- Grading: Inspecting, testing or judging products and assigning them quality grades.
- Marketing information and research: Providing information to customers and suppliers, including competitive conditions and trends.

Inaccurate assessment of the size and characteristics of the target audience helps manufacturers with product development and marketing communications. www.mediametrrix.com produces a site interaction report that details to what extent a site shares audience with another site, showing exclusive and duplicated audience;

- Financing of purchases
- Secure Electronic Transactions.

Facilitating functions are those functions that make it easier to buy or sell the product. This includes financing the product or providing credit to enable the buyer to purchase the product, McCarthy's a company which sells cars, has its own bank and financing scheme to assist buyers.

- Grading refer to the physical inspection of the products and the classification into categories based on quality and size (for example, eggs are classified into different sizes, such as extra large, large, medium etc.). Marketing research adds value by gathering data on market potential, consumer buying behavior and competitors, and reporting this information to management.

Together, these functions performed by the middleman ensure market coverage, reduce the cost of market coverage, increase the availability of cash flow in the distribution channel,
and increase end-user convenience. A producer can bypass an intermediary by elimination or substitution, but the tasks performed by the intermediary cannot be eliminated.

A single company may provide one, two or all three functions. Consider, United Beverage company Vijaymallya, a beer distributor. As a beer distributor, United provides transactional, logistical and facilitating channel functions. Sales representatives contact local bars and restaurants to negotiate the terms of the sale, possible giving the customer a discount for large producers, and arrange for delivery of the beer. At the same time, United also provides facilitating functions by extending credit to the customer. United merchandising representatives, meanwhile, assist in promoting the beer on a local level by hanging beer signs and posters. United also provides logistical functions by accumulating the many types of beer from its manufacturing plant. When an order needs to be filled, United then sorts the beer into heterogeneous collections for each particular customer. The beer will then be loaded onto a refrigerated truck and transported to the restaurant. Upon arrival, the United delivery person will transport the kegs and cases of beer into the restaurant’s refrigerator and may also restock the coolers behind the bar.

Although individual member can be added to or deleted from a channel, someone must still perform these essential functions. They can be performed by producers, end users or consumers, Middlemen such as wholesalers and retailers and sometimes non-member channel participants. For example, if a manufacturer decides to eliminate its private fleet of trucks, it must still have a way to move the goods to the wholesaler. This task may be accomplished by the wholesaler, which may have its own fleet of trucks, or by a non-member channel participant, such as an independent trucking firm. Nonmembers also provide many other essential functions that may at one time have been provided by a channel member. For example, research firm may perform the research function; advertising agencies may provide the promotion function; transportation and storage firms, the physical distribution functions; and banks, the financing function.

4.4 MARKETING FACILITATORS

Because marketing functions require significant expertise, it is often both efficient and effective for an organization to use the assistance of independent marketing facilitators. These are organizations and consultants whose sole or primary responsibility is to handle marketing functions. In many larger companies, all or some of these functions are performed internally. However, this is not necessary or justifiable in most companies, which usually require only part-time or periodic assistance from marketing facilitators. Also, most companies cannot afford to support the salaries and operating expenses required to maintain marketing facilitators as a permanent part of their staff. Furthermore, independent marketing contractors can be more effective than an internal department because nonemployee facilitators can have broader expertise and more objective perspectives. In addition, independent contractors often are more motivated to perform at high standards, because competition in the facilitator market is usually aggressive, and poor performance could mean lost business.

There are four major types of marketing facilitators: advertising agencies, market research firms, transportation firms, and warehousing firms.
Advertising agencies
Advertising agencies are responsible for initiating, managing, and implementing paid marketing communications. In addition, some agencies have diversified into other types of marketing communications, including public relations, sales promotion, interactive media, and direct marketing. Agencies typically consist of four departments: account management, a creative division, a research group, and a media planning department. Those in account management act as liaisons between the client and the agency, ensuring that client needs are communicated to the agency and that agency recommendations are clearly understood by the client. Account managers also manage the flow of work within the agency, making sure that projects proceed according to schedule. The creative department is where advertisements are conceived, developed, and produced. Artists, writers, and producers work together to craft a message that meets agency and client objectives. In this department, slogans, jingles, and logos are developed. The research department gathers and processes data about the target market and consumers. This information provides a foundation for the work of the creative department and account management. Media planning personnel specialize in selecting and placing advertisements in print and broadcast media.

Market research firms
Market research firms gather and analyze data about customers, competitors, distributors, and other actors and forces in the marketplace. A large portion of the work performed by most market research firms is commissioned by specific companies for particular purposes. However, some firms also routinely collect a wide spectrum of data and then attempt to sell some or all of it to companies that may benefit from such information. For example, the A.C. Nielsen Co. in the United States specializes in supplying marketing data about consumer television viewing habits, and Information Resources, Inc. (IRI), has an extensive database regarding consumer supermarket purchases.

Marketing research may be quantitative, qualitative, or a combination of both. Quantitative research is numerically oriented, requires significant attention to the measurement of market phenomena, and often involves statistical analysis. For example, when a restaurant asks its customers to rate different aspects of its service on a scale from 1 (good) to 10 (poor), this provides quantitative information that may be analyzed statistically. Qualitative research focuses on descriptive words and symbols and usually involves observing consumers in a marketing setting or questioning them about their product or service consumption experiences. For example, a marketing researcher may stop a consumer who has purchased a particular type of detergent and ask him why that detergent was chosen. Qualitative and quantitative research each provides different insights into consumer behavior, and research results are ordinarily more useful when the two methods are combined.

Market research can be thought of as the application of scientific method to the solution of marketing problems. It involves studying people as buyers, sellers, and consumers, examining their attitudes, preferences, habits, and purchasing power. Market research is also concerned with the channels of distribution, with promotion and pricing, and with the design of the products and services to be marketed.
Transportation firms
As a product moves from producer to consumer, it must often travel long distances. Many products consumed in the United States have been manufactured in another area of the world, such as Asia or Mexico. In addition, if the channel of distribution includes several firms, the product must be moved a number of times before it becomes accessible to consumers. A basic home appliance begins as a raw material (iron ore at a steel mill, for example) that is transported from a processing plant to a manufacturing facility. Transportation firms assist marketers in moving products from one point in a channel to the next. An important matter of negotiation between companies working together in a channel is whether the sender or receiver of goods is responsible for transportation. Movement of products usually involves significant cost, risk, and time management. Thus, when firms consider a transportation option, they carefully weigh its dependability and price, frequency of operation, and accessibility. A firm that has its own transportation capabilities is known as a private carrier. There are also contract carriers, which are independent transportation firms that can be hired by companies on a long- or short-term basis. A common carrier provides services to any and all companies between predetermined points on a scheduled basis.

Warehousing firms
Because products are not usually sold or shipped as soon as they are produced or delivered, firms require storage facilities. Two types of warehouses meet this need: storage warehouses hold goods for longer periods of time, and distribution warehouses serve as way stations for goods as they pass from one location to the next. Like the other marketing functions, warehouses can be wholly owned by firms, or space can be rented as needed. Although companies have more control over wholly owned facilities, warehouses of this sort can tie up capital and firm resources. Operations within warehouses usually require inspecting goods, tracking inventories, repackaging goods, shipping, and invoicing.

4.5 EIGHT GENERIC FUNCTIONS OF MARKETING CHANNELS

These are the Eight Generic Functions of Marketing channels:

PRODUCT INFORMATION- Customers seek more information on certain kinds of product, particularly products that are new and/or technically complex, and those that have a rapidly changing technological component.

PRODUCT CUSTOMIZATION- Some products inherently need technical modification; they require customization to fit the customer’s production requirement. Many times, however, even a standard product may need to fulfill specific customer requirement or factors such as size or grade.

PRODUCT QUALITY ASSURANCE- A customer emphasizes product integrity and reliability because of product consequences for the customer’s own operations; e.g. a standard chemical may be of utmost importance to pharmaceutical manufacturers given the liability associated with a defective final product. This is a measure of the application’s importance to the customers.

LOT SIZE- This function reflects the customer’s rupee outlay for the product. If it has a high unit value or is used extensively, it is likely a represent a significant financial decision for the customer and is likely to lead to a concentrating purchasing effort.
ASSORTMENT- A customer may need a broad range of products and may require one-shop shopping. For example, an electrical contractor may need products that satisfy different electrical codes, depending on the nature of the project. At other times, assortment needs may simply be related to the breadth of the product line and availability of complementary products.

AVAILABILITY- Some customer environments require the channel to support a high degree of product availability. These are usually customers whose product-usage rate is difficult to predict (e.g. spare parts, because they are required only when a machine breaks down), or customers who will switch to competition rather than wait when the product is unavailable.

AFTER SALES SERVICE- Customers need services such as installation, repair, maintenance, and warranty. Often the quality and availability of such part sales services will influence the initial sale. The nature of this service will obviously differ by industry. For example, in the computer industry the compatibility and availability of hardware and software upgrades may serve as a key purchasing influence.

LOGISTICS- Transporting, storing and supplying products to the end user involve levels of complexity. For example, transshipping and transporting hazardous chemicals may require special investments likely to increase handling costs. Moreover, once such investments are in place, governing their effective use will involve additional transaction costs.

The foregoing discussion underscores three important principles in the structure of marketing channels:

- One can eliminate or substitute institutions in the channel arrangement.
- However, the functions these institutions perform cannot be eliminated.
- When institutions are eliminated, their functions are shifted either forward or backward in the channel and therefore, are assumed by other members.

"It is true that you can eliminate an intermediary but you cannot eliminate its functions". To the extent that the same function is performed at more than one level of the marketing channel, the work load for the function is shared by members at these levels. For example, manufacturers, wholesalers, and retailers may all carry inventory. This duplication may increase distribution cost. However, the increase in cost is justifiable to the extent that it may be necessary to provide goods to customers at the right quantity, quality time and place.

Thus in short we can say that Marketing channels Functions are those which:

- The primary function of a distribution channel is to bridge the gap between production and consumption;
- A close study of the market is extremely essential. A sound marketing plan depends upon thorough market study;
- The distribution channel is also responsible for promoting the product. Awareness regarding products and other offers should be created among the consumers;
- Creating contacts or prospective buyers and maintaining liaison with existing ones;
- Understanding the customer's needs and adjusting the offer accordingly;
- Negotiate price and other offers related to the product as per the customer demand;
- Storage and distribution of goods;
Catering to the financial requirements for the smooth working of the distribution chain;
Risk taking for example by stock holding;
Provide information about the market to the manufacturer;
Maintain Price stability in the market;
Promotion of the product in his territory;
Financing by providing necessary working capital in the form of advance payments for goods and services;
Middlemen also take the title of the goods and services and trade in their own name;

5. PATTERNS OF CHANNEL

Dramatic changes are occurring in consumers patterns of distribution. This research provides a structure for analyzing realignments in consumer marketing channels. Specifically, the analysis centers on the channel efficiency and effectiveness dimensions that were generated by a shift from marketing distributors to a public warehouse. Marketing channels pose a Kaleidoscopic variety and marketing intermediaries are of countless types, the simplest form of marketing channel is the one where the product is taken to the consumer with just one tier of intermediaries in between and which uses just one type of intermediaries. The more complex forms involve two or more tiers and two or more types of intermediaries.

5.1 DISTRIBUTION PATTERNS

Products and services can follow many paths between suppliers and users. Some products are almost always sold through retail stores to consumers, and sometimes these are distributed by distribution companies that buy from manufacturers. In other cases, the products are sold directly from manufacturers to stores. Some products are sold directly from the manufacturer to the final consumer through mail campaigns, national advertising, or other promotional means.

In many product categories there are several alternatives, and distribution choices are strategic. Encyclopedias and vacuum cleaners are traditionally sold door-to-door, but are also sold in stores and direct from manufacturer to consumer through radio and television ads.

Many products are distributed through direct business-to-business sales, and in long-term contracts such as the ones between car manufacturers and their suppliers of parts, materials, and components. In some industries companies use representatives, agents, or commissioned salespeople.

Technology can change the patterns of distribution in an industry or product category. The Internet, for example, is changing the options for software distribution, books, music, and other products. Cable communication is changing the options for distributing video products and video games.

Distribution patterns may not be as critical to most service companies, because distribution is normally about physical distribution of specific physical products such as a restaurant, graphic artist, professional services practice, or architect.
For a few services, distribution may still be relevant. A phone service or cable provider, or an Internet provider, might describe distribution related to physical infrastructure. Some publishers may prefer to treat their business as a service rather than a manufacturing company, and in that case distribution may also be relevant.

**DISTRIBUTION PATTERN- GENERAL PATTERN**

**Middlemen Services**—Depending on the country, the level of the service a marketer will receive from the middlemen can vary greatly.

**Line Breadth**—In some distribution channels, a wide variety of products can be handled by a single middleman, while in other systems, a middleman may specialize in only one product.

**Costs and Margins**—Depending on the country and the wide array of potential services a middleman may offer, cost levels and margins between countries can be very different.

**Channel Length**—There tends to be an inverse relationship between the channel length and the size of the purchase.

**Nonexistent Channels**—In many countries, the necessary channel-of-distribution may not be developed enough to handle the market.

**Blocked Channels**—There may be reasons why the marketing channel the marketer needs to be used is blocked by competitors or even governments.

**Stocking**—It may be difficult to keep your product in stock in the international market because there may be many incentives for middlemen not to hold stock.

**DISTRIBUTION PATTERN- RETAIL PATTERN**;

**Size Pattern**—Depending on the country, you may be selling your product through large retail outlets which have many products and consumers or you may have retailers who specialize in one product and do not deal with many customers.

**Direct Marketing**—When a country has an underdeveloped distribution system, the marketer may choose to sell her product through the mail, by phone, or door-to-door.

**Resistance to Change**—When the appropriate distribution system does not exist, there may be strong resistance to change.

**5.2 COMPETITION & BUYING PATTERNS**

It is essential to understand the nature of competition in your market. This is still in the general area of describing the industry, or type of business. Explain the general nature of competition in this business, and how the customers seem to choose one provider over another. What are the keys to success? What buying factors make the most difference—Price? Product features? Service? Support? Training? Software? Delivery dates? Are brand names important?

In the computer business, for example, competition might depend on reputation and trends in one part of the market, and on channels of distribution and advertising in another. In many business-to-business industries, the nature of competition depends on direct selling, because channels are impractical. Price is vital in products competing with each other on retail shelves, but delivery and reliability might be much more important for materials used by manufacturers in volume, for which a shortage can affect an entire production line.
In the restaurant business, for example, competition might depend on reputation and trends in one part of the market, and on location and parking in another. In many professional service practices the nature of competition depends on word of mouth, because advertising is not completely accepted. Is there price competition between accountants, doctors, and lawyers? How do people choose travel agencies or florists for weddings? Why does someone hire one landscape architect over another? Why choose Starbucks, a national brand, over the local coffee house? All of this is the nature of competition.

5.3 CHANNEL PATTERN: THE EFFECT ON CONSUMERS

As power and influence shift downstream, closer to customers, distribution channel players become more important. As new players create new, more specialized channels, and as traditional players expand their repertoire to serve customers better, the result is a rich profusion of new ways to bring products to customers. Not all customer channels continue to thrive as market conditions change.

**Multiplication • Channel Concentration • Compression • Reintermediation**

**Multiplication**

A variety of market conditions can trigger the channel multiplication pattern. The first market condition is multiplication of customer types. Today, customers want to buy in different ways. They look for more buying options and have become far more varied in their needs and preferences. Significant technological change is another trigger. The rapid evolution of the Internet has created a new channel for transactions and distributions globally.

Deteriorating economics due to channel dysfunctionality also encourages the multiplication pattern. If a channel is poorly matched to how the customer wants to buy, it creates inefficiencies, has high costs, and results in low profitability. A channel very closely matched to how customers want to buy can be asset-efficient and highly profitable.

Many manufacturers are uncomfortable with channel multiplication. It disrupts their established market system and invades the comfort of their existing channel relationships. Some companies hesitate to adopt new, more customer-friendly channels for fear of angering their traditional partners. Whether real or imagined, this channel conflict holds them back. This can be well justified since traditional distributors are often very turf-sensitive — particularly when the distributors' value added is weak. In the short term, avoiding the issue earns peace for the manufacturer and the distributor, but in the long term, it undermines the competitiveness of both. To deal with the conflict, a two-pronged approach has been used by some:

Develop new programs that will address some of the key concerns of the existing channel, and aggressively pursue the new channel opportunities.

**What do you do when you are in a Multiplication Program?**

If you are the manufacturer, use the new channels early. Be their first choice. If you are a traditional channel, launch new channel business designs the responds to how your customers and prospects buy.
Channel Concentration
The multiple dysfunctional ties of the fragmented system (inefficiency, inconvenience and time lost) of many small-scale outlets are the ideal preconditions for triggering the channel concentration pattern. In this pattern, value shifts when a newcomer brings economies of scale to a fragmented, high-cost market. The innovators consolidate the small fragmented shops and service offerings into larger units. A concentration pattern can fundamentally transform the retail landscape.

A new pattern emerging in retail channels is called the "Customer Occasion" channel format. It is based on an understanding of the important purchasing occasions and activities consumers would like to cluster together in their daily, weekly or less frequent rhythms. By clustering these activities under one roof, the channel creates a format that mirrors the combination and sequence of a consumer's activities on that shopping occasion. Customer Occasion channel strategies are process reengineering on behalf of customers. They use research to understand what processes consumers would like to cluster, then they do the clustering for them. Customer Occasion strategies show the value of segmenting customers by identifying the intersection of identity-based and occasion-based attitudes.

What do you do when you are in a concentration program?
Lead the process. Always be thinking of what the next generation model should be.

Compression
Multistep distribution systems functioned to break bulk and bring products closer to customers, but their function was achieved at a price: long cycles, high costs and low responsiveness to changing conditions. Two forces put pressure on these multistep systems: consumers' search for lower prices and greater convenience and manufacturers' search for greater distribution efficiency. As the gap between these two priorities has widened, the channel compression pattern has been triggered in many industries. The result has been the compression or disintermediation of traditional distribution channels in favor of more efficient, closer or even direct relationships between customers and suppliers.

Channel compression removes steps in the distribution system. In its most extreme form, channel compression leads to complete disintermediation: low-value-added distributors are eliminated, and the direct link formed between supplier and customer creates enormous benefits for both. Costs fall, assets are reduced and the quality of mutual information flow is vastly improved. In the future, sellers will make electronic pathways their key distribution channels at an accelerating rate. To gain the best information and the lowest prices, customers will migrate to new channels or to direct relationships with the suppliers themselves.

What do you do if you are in a Compression Pattern?
As buyer and manufacturer, create direct links early. If you are still the "old channel," create new value-added offerings, or disinvest, before you are disinvested by your value chain neighbours.

Reintermediation
The channel compression, or disintermediation, pattern eliminates traditional distributors and creates direct relationships between a company and its customers. In a small but growing number of cases, however, a pattern of reintermediation follows and allows the "ousted" distributors or new players to come back into the picture in another role.
Companies that recognize the key gaps and unmet needs can re-enter the system as value-added intermediaries. These new intermediaries return to do one of two things: provide customers with new, important value-added services not provided in the new direct customer-supplier relationship; or provide customers with significantly more efficient means of transacting business. With either activity, the result is a new distribution channel built on a meaningful new value proposition for the customer.

The greater the number of sellers, the greater the need for buyers to gather information about sellers, make decisions about which sellers to use, and find ways to contact each one at each level. On the selling side, having too many fragmented buyers means high marketing costs, high distribution hurdles and complicated logistical issues.

In this variant of the reintermediation pattern, the fundamental shift that occurs is from a fragmented state to a highly organized switchboard that magnetizes the loyalty of buyers and achieves the grudging acceptance of sellers. In this pattern, there is an opportunity for a farsighted player to move into the inefficient void between buyers and sellers. The player becomes a high-value intermediary by creating a switchboard or hub business design that significantly increases the efficiency of both buyers and sellers. Being that hub can lead to profitability and strategic control within an industry.

What do you do when you are in a Reintermediation Pattern?
As buyer and supplier, use the new channel early. It will save you money. As the new channel, maximize the value added and accelerate your investment program, to minimize the window available for the number two entrant.

5.4 THE CHANGING PATTERN OF DISTRIBUTION

Over the last decade the domestic distribution function has changed its internal and external appearance in order to meet the needs of the market, and enable companies to remain competitive in the market place.

The object of this research is threefold: firstly, to define what changes have occurred within the domestic distribution system; secondly, to identify the reasons for these changes; and thirdly, to forecast future developments within the marketing channel structure.

Recently there have been considerable improvements in productivity within the distribution function leading to both absolute cost reductions and increases in customer service levels. Four main factors are considered to have influenced these changes. Firstly, improved management awareness in the role of the distribution functions. Secondly, a significant number of technical developments affecting the operating activities within the distribution function. Thirdly, structural change within the channel and co-operation between the independent channel members. Finally, the external channel environment has changed considerably as a result of urban renewal programs and increasing Government constraints. The methods by which management could achieve change with the distribution function are identified and an outline is given of the problems which may be encountered in the process. It is forecast that planning activities will play an important role in developing the distribution system to meet the market needs of the future.
6. REVIEW OF LITERATURE

6.1 LITERATURE REVIEW
The perspective in this article is supported by the channel theory. Traditionally, channel theory has concentrated on vertical dependencies between firms in the marketing channel. At the same time, a marketing channel consists of a number of actors or intermediaries that take part in the exchange processes, since they may improve the efficiency of the channel (Alderson, 1954). In a marketing channel, activities are specialized, and there is a functional distribution between firms. It state that the job of a channel manager is not done when that optimal channel is designed; the manager now has to make that channel work! There is no guarantee that the optimally designed channel will actually operate successfully. The selection of an appropriate marketing channel system becomes of vital importance for the presence or absence of dependence in the marketing channel.

In our literature review on marketing channels, we emphasize the strategic and tactical issues related to marketing distribution channels. Moreover, a exploratory research with marketing channels of distribution were performed to identify the main characteristics of their channel members with focus on consumers.

6.2 CHANNEL THEORY
Marketing activities occur through various channels. Kotler identified nine functions of marketing channels, including information, promotion, negotiation, ordering, financing, risk taking, physical possession, payment, and the actual transfer of product ownership. Peterson, Balasubramanian, and Bronnenberg (1997) stated that all marketing functions are carried out through three distinctive types of marketing channels: communication channels, transaction channels, and distribution channels. By definition, communication channels enable the flow of various types of information between buyers and sellers. Transaction channels realize ordering and payment activities between buyers and sellers, and distribution channels facilitate the physical exchange of products and services between buyers and sellers. Stewart, Frazier, and Martin incorporated marketing functions into two types of channels: communication channels and distribution channels. The latter has a broader definition, meaning "a mechanism through which a product or service can be selected, purchased/ordered, and received by a segment of the firm's customers." (p.190)

Although conceptually distinct, in the context of consumer decision making, these channels frequently overlap, and a given channel may be responsible for multiple functions. The multi-functionality can be best demonstrated in an online store. For instance, a software program can be advertised, paid for, and distributed to a consumer through the Web. In this case, the Web serves the functions of communication, transaction, and distribution channels. For non-digital products such as computer hardware, clothing, or wine, the Web is not able to function as a distribution channel.

For consumers, the utility of a communication channel is to meet their information needs for decision making. Consumers do not shop for every product; they shop only when they need to make a choice in complexity. Consumers are likely to employ a phased decision process, first filtering available alternatives and then undertaking detailed comparison of the reduced consideration set. Bettman suggested that a phased decision strategy, with an elimination phase and a choice phase, is likely to be used when the number of alternatives is
large. This typical decision strategy requires quantity and quality of information. Quantity of information is important because it helps consumers form their consideration set of alternative brands. Quality of information about brands refers to accurate and current information and is essential when consumers need to make their final choices. For instance, consumers must know the availability and current price of a product before they can make the purchase. Thus, the utility of a communication channel can be judged on its attributes of quantity, quality, and decency of information.

The function of a distribution channel, as broadly defined, is to facilitate the payment and transfer of the ownership of a product. The characteristics of a distribution channel consists of the factors that affect a purchase decision process, from selecting a brand, making payment, access to the good bought, to post-purchase service. Based on previous research, we have identified six attributes that may affect which distribution channels a consumer chooses. These attributes are pre-purchase inspection of products, security of payment, prompt access to goods bought, easy exchange and return, and other post-purchase service. They are used in the comparison of different channels in this study.

Channels may be different not only in their utilities for consumers in terms of communication and distribution but also in terms of accessibility. Channel accessibility can be defined as the degree to which time and effort are involved in using a channel. Accessibility can be compared between members in a channel category or between different channel categories. For instance, access to a retail store may need a car and time driving to the store. For access to the Web a consumer needs a computer or TV with an Internet connection and knowledge of surfing the Internet. In a similar fashion, effort is needed in using a channel. Users surfing the Web for product information need to type in commands and to examine the resulting Web pages. These efforts are considered costs to the consumer for using the channel.

In addition, the way in which information is available in a channel also impacts the effort a user needs, including the ease of customizing information and degree of interactivity. As the amount of information increases, searching and identifying information that is relevant to specific needs have become difficult and time consuming. Thus, consumers prefer communication channels that can customize information automatically. Interactivity is another aspect of channel accessibility in that it affects the user's effort. Although interactivity has been defined differently in previous studies, response time and response contingency are two key elements of interactivity in communication. In an interactive channel, a user can get a relevant response to his or her request in real time.

In summary, marketing channels vary in terms of their attributes in communication, distribution, and accessibility. This study assumes that a consumer will consider a channel high in utility if it is perceived to excel in its attributes in these three dimensions. This study proposes the first hypothesis:

H1. Consumers who make online purchases perceive the Web to have higher utilities in communication, distribution, and accessibility than those who do not make online purchases, and frequent online purchasers perceive higher utility than occasional online purchasers.

Actual use of the Web as a shopping channel not only requires certain resources, it also requires knowledge about the Web or "Internet literacy." Consumers undergo a learning curve in adopting a new channel, and the shape of the curve may be different for various consumers. One would expect that consumers with different levels of channel knowledge
tend to feel differently about using the Internet for shopping and buying purposes. A consumer with more knowledge of the Web is more likely to have a positive perception of the channel utilities, which, in turn, will have a positive impact on actual online purchases. Channel knowledge also may affect the frequency of online purchases.

H2. Consumers who make online purchases consider themselves more knowledgeable about the Web as a channel than those who do not make online purchases, and frequent online buyers consider themselves more knowledgeable than occasional online buyers.

7. DESIGNING OF MARKETING CHANNELS

7.1 INTRODUCTION

When choosing distribution channels, companies need to rely on design principles that are aligned with their overall competitive strategy and performance objectives. Distribution channels can range from very simple systems with little infrastructure to highly complex systems.

A channel of distribution can be defined as the collection of organizational units, institutions, or agencies within or external to the manufacturer, which perform the functions that support product marketing. The marketing functions are pervasive: they include buying, selling, transporting, storing, grading, financing, bearing market risk, and providing marketing information. Any organizational unit, institution, or agency that performs one or more of the marketing functions is a member of a channel of distribution.

A channel is an institution through which goods and services are marketed. Channels give place and time utilities to consumers. In order to provide these and other services, channels charge a margin. The longer the channel the more margins are added.

Channels are an integrative part of the marketer's activities and as such are very important. They also give a very vital information flow to the exporter. Whilst for developing countries, as stated earlier, channels are almost given, this is not always the case, and as exporting becomes more and more necessary, it will not always be the case.

In deciding on channel design the following have to be considered carefully:

- Market needs and preferences
- The cost of channel service provision
- Incentives for channel members and methods of payment
- The size of the end market to be served
- Product characteristics required, complexity of product, price, perishability, packaging
- Middlemen characteristics - whether they will push products or be passive
- Market and channel concentration and organisation
- Appropriate contractual agreements
- Degree of control.

The concept of marketing distribution channel is a simple one. There are two essential parts: the physical distribution structure that moves a product from the manufacturer to the consumer or user and the marketing structure that is established as a part of the channel of distribution to ensure the manufacturer that all marketing objectives are accomplished. The
primary marketing objective of most manufacturer of physical products and marketable services is to profitably reach as many potential consumers or users of their products as possible. To accomplish this task of moving products from one or more points of origin to hundreds, thousands or millions of consumers require a formal structure for sales and distribution. This structure is the Marketing distribution channel.

A new firm typically starts as a local operation selling in a limited market, using existing intermediaries. The number of intermediaries in any local market is apt to be limited: a few manufacturers’ sales agents, a few wholesalers, several established retailers, a few trucking companies, and a few warehouses. Deciding on the best channels might not be a problem. The problem might be to convince the available intermediaries to handle the firm’s line. If the firm is successful, it might branch into new markets. It might have to use different channels in different markets. In smaller markets, the firm might sell directly to retailers; in larger markets, it might sell through distributors. In rural areas, it might work with general-goods merchants; in urban areas, with limited-line merchants. In one part of the country, it might grant exclusive franchises; in another, it might sell through all outlets willing to handle the merchandise. In one country it might use international sales agents; in another, it might partner with a local firm. In short, the channel system evolves in response to local opportunities and conditions.

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 induce 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. Companies in the same industry may differ in their emphasis on push or pull.

Designing a channel system involves three steps: (1) analyzing customer needs, (2) establishing channel objectives, (3) identifying and evaluating major channel alternatives. The marketing-channel designer knows that providing greater service outputs means increased channel costs and higher prices for customers. The success of discount stores indicates that many consumers are willing to accept smaller service outputs if they can save money.

Channel design must take into account the strengths and weaknesses of different types of intermediaries. For example, manufacturers’ reps are able to contact customers at a low cost per customer because the total cost is shared by several clients, but the selling effort per customer is less intense than if company sales reps did the selling. Channel design is also influenced by competitors’ channels. Channel design must adapt to the larger environment. When economic conditions are depressed, producers want to move their goods to market using shorter channels and without services that add to the final price of the goods. Legal regulations and restrictions also affect channel design.
Channel design is a strategic marketing tool. Four decisions can be help a firm design a distribution channel:

- what role distribution is to play in achieving objectives
- what type of channel is needed? with or without intermediaries?
- what level of intensity of distribution?
- which specific intermediaries to use? which will be best suited to achieve objectives?

Step 1: Analyzing Consumer needs
- Cost and feasibility of meeting needs must be considered.

Step 2: Setting Channel objectives
- Set channel objectives in terms of targeted level of customers service.
- Many factors influence channel objectives.

Step 3: Identifying Major Alternatives
- Types of intermediaries
  - Company sales force, Manufacturer's agency, industrial distributors.
- Number of Marketing Intermediaries
  - Intensive, Selective and Exclusive distribution.
- Responsibilities of channel members

Step 4: Evaluating Major Alternatives
- Economic Criteria
- Control issues
- Adaptive Criteria

7.2 THE CHANNEL DESIGN PROCESS

- Channel design is the dynamic process of developing new channels where none existed and modifying existing channels,
- Channel design is an active rather than a passive task.
- Frequently, the manager has little flexibility in the selection of channel structures because of trade, competitive company and environmental factors.
- The decision on channel design may be imposed on the manager.

7.3 CHANNEL DESIGN SEQUENCE

A well crafted, well executed channel design plan is a powerful weapon in any company's arsenal. With a plan in place, you can provide superior value and service to both types of customers you serve: distributors and end users. Without a plan, you flounder.

I define channel design as creating a totally new channel or modifying an existing channel of distribution structure. There are eleven steps involved in creating a new channel or reorganizing an existing one through the channel design sequence discussed here. Proceeding in an orderly manner through these eleven steps gives you can excellent shot at success.
THERE ARE ELEVEN STEPS IN CHANNEL DESIGN SEQUENCE

Identify the new market you want to penetrate or new product you need to launch.

Verify the need for a new channel of distribution or some form of channel reorganization.

Evaluate all macro market conditions.

Conduct a competitive channel analysis.

Research and rank customer/end user satisfaction requirements.

Specify and rank the tasks you want your channel partner to perform.

Investigate all possible channels of distribution structures.

Decide upon eagle channel Partners.

Obtain internal corporate recommitment.

Approach and sign the selected distribution.

Monitor and evaluate the channel structure.

TYING IT ALL TOGETHER

To tie all of the eleven channel design steps neatly together, map out the key action items in a structured critical event chart that shows what you need to do and when you need to do it in order to successfully build your channel. Such a chart helps you track your progress and ensures that critical events are not forgotten. By assiduously following these eleven steps, you gain substantially on your competition.

The channel design sequence is a living managerial tool that will guide you through the critical process of selecting and forming solid business relationships with the very best eagle distributors. Equally important, you will avoid those candidates that would drain away precious managerial energies and resources. This is the growth cornerstone of channel of distribution marketing.

Channel design is affected by these of following:
Channel design must take into account the strengths & weaknesses of different types of intermediaries.
 Channel design is also influenced by the competitors' channels.
 Channel design must also adapt to the larger environment.
 Legal regulations & restrictions also affect channel design.
 Select the channel members.

4.4 CHANNEL DESIGN CONSIDERATIONS

Marketing executives typically consider three questions when choosing a marketing channel and intermediaries:
1. Which channel and intermediaries will provide the best coverage of the target market?
2. Which channel and intermediaries will best satisfy the buying requirements of the target market?
3. Which channel and intermediaries will be the most profitable.

The design of the channel should contribute to the firm's quest for differential Advantage:
- Recognize need for channel design decision
- Set and coordinate distribution objectives
- Specify distribution tasks
- Develop possible alternative channel structures
- Evaluate variables affecting channel structure

4.5 THE USES & BENEFITS OF CHANNELS DESIGN

The main objective of a channel design efforts to efficiently select and entice "Golden eagles"- the very best candidate in our channel environment. Our ability to deal with eagles determines the ultimate success or failure of your marketing efforts. Investing attention in the channel design process pays off amply every time.
- Establish selection criteria that identify the best channel candidate.
- Minimize conflict weeding out potential antagonists and choosing the most cooperative and least conflictual distributors.
- Avoid legal entanglements by filtering out trouble-making, channel-destroying undesirables while maintaining the highest legal and ethical standards.

When we proactively and strategically think through the channel design sequence, we can construct a two way mutually beneficial program. Our selection criteria and enticing administrative policies will be strong evidence of our full understanding of our distributor's part of the channel equation. Investing in a comprehensive design also enables us to identify and deal with a competitive market blockade. When approaching a new market, we frequently find that our competition has blocked our entrance into the market by locking up the eagle distributors. They clearly have the "early moves" advantage. Faced with this dilemma, we have three choices:
- Completely retreat from the target market.
- Create a new, secondary channel of distribution.
- Build our credentials by entering less important geographic markets and attacking the primary market when our reputation is stronger.
Without a channel design plan, we’ll probably choose the first approach above and through in the towel. But with a plan, we can think through our options and choose one of the latter two approaches. Frequently, after we acquire credibility in the market via a secondary channel of distribution, the primary channel notices our success and becomes receptive to us.

If our channel structure is already in place, the channel Design sequence helps us evaluate whether it is satisfying all of our end user buying requirements. Proceeding through the channel Design Sequence ensures that our channel marketing program is functioning as we and our customers want it to.

4.6 IDENTIFY THE BEST CHANNEL DESIGN

Good channel design is often the key to market leadership and overall business success. Because they generally require years of continuous attention to develop, sound manufacturer-intermediary-end-users linkages are often barriers to competitive entry. Without the benefits that accrue from solid market channels, even marketers with superior products can fail in the marketplace.

Using channel design as a strategic weapon creates sustainable competitive advantages (SCAs). SCAs refer to skills that a firm does exceptionally well which also have strategic importance to that business. SCAs allow firms to gain an advantageous position in the market relative to their competitors on a long-term basis. Channel design decisions are among the most critical facing marketing managers. The type of channel chosen directly influences each of the other marketing decisions.

Marketing channels essentially perform the task of moving goods from producers to consumers. In doing so, they overcome the time, place, and possession gaps that separate goods and services from the consumers. To achieve these critical outcomes, channel members must perform several key marketing functions, including information, promotion, negotiation, risk-taking, and billing, among others.

The process by which various channel design alternatives are evaluated in terms of their performance competencies is known as channel efficiency analysis. This assessment centers on the relative performance of alternative channel designs. Channel effectiveness analysis on the other hand, considers the strategic fit with the overall marketing strategy of potential changes in the channel design. When compared to efficiency analysis, the evaluation of effectiveness factors in a marketing channel requires that the evaluator assume a longer time horizon.

A variety of circumstances can indicate that a marketing organization needs to design or redesign its channel. Such circumstances would include the organization’s development of a new product or entire product line, its decision to target existing products or product lines to new consumer/business markets or geographic areas, or an awareness that significant changes have been or are about to be introduced to some other aspect of the organization’s marketing mix. Moreover, such circumstances could arise when existing channel members change their policies, consistently fail to perform as expected, or are engaging in practices that cause conflict. When a new firm is established, either from scratch or as the result of merger or acquisition, the need to establish new channel arrangements is clear.
The various channel structural alternatives available to a producer firm can be identified in terms of the following three dimensions: (1) the number of levels in the channel, (2) the number of intermediaries operating at the various levels, and (3) the types of intermediaries used at each level. Each intermediary that performs a function necessary to convey the market offering closer toward the final user represents a channel level. A channel's length is described by the number of its intermediary levels. Second, companies must determine the number of intermediaries to be used at each channel level within a given market area. Three basic designs are available: intensive, exclusive or selective distribution.

Finally, firms must identify the types of intermediaries that are available at each channel level. The following distribution alternatives are generally available: manufacturer’s sales force, manufacturer’s representatives, or industrial suppliers. In most instances, producers will be able to identify several intermediary alternatives. The intermediary alternatives need to be evaluated against expected sales and costs, control and resources, and flexibility criteria.

The best channel structure is reflected in the design that offers the desired performance effectiveness, at the lowest possible cost, along each marketing function to be executed. Unfortunately, reality dictates that the selection of the optimal channel design will often prove impossible. Therefore, managers should strive for the best possible design alternative by evaluating the various design options along the following criteria: service output levels desired by customers, channel objectives and product characteristics and market behaviors and segments.

Once they have entered into a channel arrangement, channel members should periodically review their intermediaries’ performance. Channels or intermediaries can be evaluated on the: quality of their customer service, competence with which they manage the marketing functions assigned to them, share of the market they have achieved in the assigned area and their potential for additional share gains, and the level of attention they pay to the manufacturer’s product(s).

Meeting customer needs is a necessary but insufficient condition for success in the marketplace. In marketers’ attempts to foster every edge possible through channel design, the concept of a channel position should not be overlooked. A channel position is reflected in the status a channel member earns among intermediaries for supplying market offerings, financial returns, programs, and systems that are better than those offered by competing manufacturers. An enticing channel position can be achieved by treating each relationship with one’s fellow channel members as partnerships that should provide desired benefits to the partner on a long-term basis. Channel members should strive to provide their intermediaries with superior value from the resale of products, support programs and incentives, or the channel relationship itself, relative to those outcomes offered by other producers. This is known as the pursuit of a sustainable partnership advantage and, in their channels design efforts, marketers should also be guided by this goal.

4.7 THE CHANNEL DESIGN ISSUE

Stern and El-Ansary (1982) affirm that a channel is not easy selected; there are some constraints such as the availability of good middlemen, traditional channel patterns, product characteristics, company finances, competitive strategies, and customer dispersion question. Its is the same idea of McVey (1960) who state that channels networks were not necessarily designed under the control of one type of organization and it faces limited
choices in designing the channels for their products. The author defend that "choice of a channel is not open to any firm unless it has considerable freedom of action in matters of marketing policy." According to this approach the producer has a variety of limitations as limited choice of types of middlemen, customers and locations of trading areas. Some logistics authors say that the channel choice is a cost and financial decision (Lambert 1981; Bowersox 1969). Otherwise Lilien et al. (1992) says that the channel select decision is not only an economic decision but also on the control aspects of channels and their adaptability. Wilkinson (2001) affirms that the current channels literature are not able to explain how a given channel structure came to be and how it will change over time. The assumptions analyzed by the theory are simplistic and economic approach (see Balderston, 1958; Baligh and Richartz, 1966). The channel design literature is not sure yet if a firm choose freely or adapt in a given channel structure. Hence there is a need to develop more research about how firms operate in a channel structure or only adapt to them (Wilkinson, 2001). So, the questions arise, Firms are able to choose or only adapt in a given channel structure? What factors determine the choice or the follow in a channel? This article aims to give some highlights to answer these questions. In the next section we present the constructs that concerns to distribution structure, after, a framework is built based on the literature. Finally we present some conclusions and future research suggestions.

7.8 THE COMPARATIVE ANALYSIS OF THE MODELS FOR MARKETING CHANNEL DESIGN

The formation of marketing channel is attributed to the decisions that encompass the creation of new (not existing before) marketing channels or the modification of existing marketing channels. Channel formation proposed by Rosenbloom (1999); Berman (1999); Kotler (2002); Stern, Coughlan, El-Ansary (2002; 2006) and Neves, Zuurbier, Campomar (2001). The analysis of the models of marketing channel formation is presented below. The model for marketing channel design proposed by Kotler.

Kotler (2000) suggests the method of five stages that is presented in Figure 1.

FIGURE1.

Analysis of consumer needs

The aims of marketing channel

Identification of the main alternatives of marketing channel

Selection of intermediaries

Assessment of marketing channel

Kotler (2000) suggests the beginning the formation of marketing channel with the analysis of the needs of target consumers. At the second stage the target markets are identified and the main aims of marketing channel are determined, according to product characteristics and qualification of intermediaries. Next, different alternatives of marketing channel are
analysed and every alternative is characterized according to the type of intermediary, number of intermediaries required, responsibility of marketing channel participants and conditions of performance. At the fourth stage the selection of marketing channel depending on the economic criteria, control level during the period of adaptation has to be performed.

The model for marketing channel design suggested by Rosenbloom. Rosenbloom (1999) suggests the model that encompasses 7 stages (Figure 2).

Rosenbloom (1999) suggests to begin with the identification of preconditions for marketing channel creation or change. At the second stage the goals of marketing channel should be determined and coordinated. Next, the distribution tasks should be specified and the alternative structures of marketing channel should be foreseen (the length and width of marketing channel). At the fifth and sixth stages the factors influencing marketing channel are analysed and the optimal structure of marketing channel is defined using various existing methods for doing so. At the last stage the proper intermediaries should be selected.

The model for marketing channel design suggested by Berman: Berman's Model of the selection of marketing channel structure also has 7 stages;figure3
The aims of Marketing channel

Identification of Marketing channel length, width and need for intermediaries

Identification of factors influencing market, product, enterprise and

Specification of tasks for Marketing channel Participants

Search for intermediaries

Implementation of distribution

Marketing channel performance control

The model for marketing channel design suggested by Stern, Coughlan, El-Ansary (2006).

The main feature of this model is the orientation to the needs of consumers. The model suggests to identify the needs of consumers and to group them into the separate segments at the very beginning of the process of channel design.

Segmentation

Positioning

Targeting

Establish new channel

Refine existing channels

Channel Implementation
Comparing the models for marketing channel design

There is no strict regulation about how to determine the structure of marketing channel. Different authors provide models with different number of process stages. Thus, for the enterprise to begin the process of marketing channel formation, we recommend to get acquainted with the peculiarities of existing models and to decide which of them would be more suitable for the specific needs of the enterprise. Comparable analysis of the existing models of marketing channel planning allows highlighting the following:

Rosenbloom (1999) emphasizes the distribution in the general strategy of enterprise. The model shows the steps that combine distribution goals, strategies, strategic planning of the enterprise and marketing channels. This model is easy to implement.

Berman’s model, without big numbers of stages, still is very clear and detailed, defining the various factors that have to be analysed at each level.

The model of Kotler (2002) suggests to begin the formation of marketing channel from the end user. This model in comparison with others is simpler. It defines the principles of marketing channel formation rather than claims to give the exhaustive projection within this process.

The model proposed by Stern, Coughlan, El-Ansary (2002) comprises the biggest number of marketing channel design stages that are provided in detail. The model of distribution system is created according to the needs of the end user. The model suggested by Stern, Coughlan, El-Ansary (2006) emphasizes the needs of consumers.

Identification of the consumers needs allows grouping them into separate segments. According to different needs of different targets, specific features of the product, goals and potential of the enterprise, the most acceptable marketing channel is being designed.

Channel design refers to the development of new channels or the modification of existing channel structures.

Anderson et al. note that marketing channels must be aligned with the firm’s overall objectives and competitive strategy. Devising the structure or “architecture” of the marketing channel system entails four key channel design dimensions: (a) number of levels in the channel, i.e., the number of middleman levels between the manufacturer and ultimate users, (b) intensity at the various levels, i.e., the number of middlemen at each level, (c) types of middlemen, i.e., particular kinds of middlemen, and (d) number of channels, viz., single, dual, or multiple marketing channels.

The foregoing dimensions typically produce a number of possible channel alternatives. These alternatives must be evaluated in light of an array of variables, such as served markets, product types, and germane environmental and behavioural factors. Analyzing the channel alternates can be extremely complex because several approaches and quantitative models may be utilized in identifying and then implementing the optimal channel structure.
7.9 CONSUMER ANALYSIS

Marketing channel Design, as with all marketing strategy decisions, must focus first on analysis of customers. Just as a macro level approach to customer analysis is fundamental to development of corporate strategy, a macro level approach is necessary to development of specific channel design strategies. This analysis must incorporate two interrelated stages: (1) Identification and selection target market segments, and (2) Analysis of customer’s buying behavior.

Market Segments-
It is a well recognized fact that there is no single market for any given product or service. All markets are made up of different segments, each of which has somewhat different needs, or at least different wants, relative to that product or service. Effective market segmentation requires, then, that the marketer clearly identify the groups or segments to which products may be offered and choose the group or groups that the firm will attempt to serve.

There are obviously many ways in which markets can be segmented and a comprehensive treatment of the subject is beyond the scope of this text. The discussion here is intended to highlight the importance of this process in the design of Marketing channels, since channel design cannot be initiated without a clear understanding of the intended segments and their behavior.

Customer’s buying Behavior-
Effective design of marketing channels does not end with identification of target market segments. It is also critical to understand the buying behavior of the customers in the target market segment(s), for this behavior is the driving force behind proper channel design. Of particular importance to marketing channel design are answers to the questions of where customers buy the product, when they buy it, and how they buy it. The answer to these questions dictate the necessary market coverage objective as well as customer’ requirements for lot size, information and financing.