CHAPTER-3

MARKETING DISTRIBUTION CHANNELS

TERMINOLOGY & STRUCTURE

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MARKETING DISTRIBUTION CHANNELS

TERMINOLOGY & STRUCTURE

1. INTRODUCTION

"Distribution channels refers to "a set of interdependent organizations involved in the process of making available a product or service for use or consumption". Using this definition, it is possible to infer that a marketing channel exists to ensure the consumption of a product or service to the final user."

Distribution of the one the part of the marketing and in most of the businesses the distribution serves as the middle man between the business and the company so this is the reason the companies use the distribution channels to provide you the medium for the sale of your products to the customers. The company uses different approaches for the distribution of their products first method the company use is to sell its products to the distributor at a certain profit ratio which the company further uses for the sale of the products. So the company uses the different distribution channels in order to make sure that the product is reach to the final customers.

So there are various distribution channels which are used by the different countries in order to sale their products. So it also depends upon the nature of the products for which the company chooses the distribution medium. So the distribution channel serves as the intermediary between the seller and the buyer. So this is the reason the company uses the different distribution channel to reach the final consumer.

As part of distribution and marketing channels, there are three entities: (a) producers, (b) middlemen and (c) consumers.

a. Producers are responsible for the creation of the product and its brand, and are considered the channel’s origin.
b. According to Dias (1997), Middlemen or intermediaries are entities that facilitate some producers’ tasks, such as distribution of products, promotion and sales.
c. In the end of the channel, there are the customers (or final users), who are considered part of it as they frequently perform channel flows, like the other members of it.

The purpose of the marketing channel is to satisfy the end-users in the market, whose objective is to use or consume the product or service that is being sold.

The distribution and marketing channels consist of three entities: producers or manufacturers, middlemen or intermediaries, and consumers. The producers and manufacturers are channel components typically involved in the creation of products. They
are the creators of the product's brand, highly visible, and are considered as channel origin. The middlemen or intermediaries are “...all the institutions and individuals that facilitate the task of the manufacturer to promote, sell, and distribute the products to their end consumers”. Consumers are classified as marketing channel members because they can perform and frequently do perform channel flows, as do the other members of the channel. The importance of middlemen increases in the channel structure as they adjust assortment discrepancies between the product supply from the manufacturer and the demand from the consumer. The discrepancy results from the fact that the manufacturers produce a large quantity of a limited variety of goods, whereas the consumers desire, generally, a limited quantity of a wide range of goods. Bucklin argues that the channel systems exist and remain viable over time, performing tasks that reduce the search, waiting time, storage, and other end-user costs that are called channel services.

According to Bucklin, there are four main types of services performed in the channel system, due to guarantee end-user satisfaction: (1) breaking bulk; (2) spatial convenience; (3) reduction of waiting or delivery time, and (4) variety and assortment of products. The definition of these services is important because they influence the channel objectives and structure. Distribution channels perform the functions of facilitating search, adjusting discrepancy of supply, breaking bulks, creation of routines and reduction of contacts (transaction costs). They can also be responsible for creation of competitive advantage to the company, making possible the access to a wide net of intermediaries and consumers, supplying services, reducing the distribution's costs, accessing the target market by using advanced technologies. Other tasks are performed to guarantee the existence of the channel system and they refers to reducing the search, waiting time, storage and adjustment of discrepancy in the supply.

Distribution channels can also be responsible for creation of competitive advantage to the company, what can be a result of their capacity of: making possible the access to a wide network of intermediaries and customers; supplying services; reducing distribution’s costs and also by the use of advanced technologies to reach the target market.

- Distribution is the physical flow of goods through channels
- Channels are made up of a coordinated group of individuals or firms that perform functions that add utility to a product or service
- Distributor – wholesale intermediary that typically carries product lines or brands on a selective basis
- Agent – an intermediary who negotiates transactions between two or more parties but does not take title to the goods being purchased or sold.

The whole marketing process involves producing, pricing, distributing and promoting goods and services to existing and potential customers at a profit. If you cannot successfully distribute your product or service to your customers, all of your other marketing efforts may be useless. You must effectively move your product or service from producer to consumer in a timely and cost-effective way. As an entrepreneur, whether you are a producer or service provider, you must match your ability to produce and supply goods and services with the needs and demands of the various market segments or target groups you have identified.
First we need to understand the “traditional channel of distribution.” This is how products have moved from manufacturer to end user since the industrial revolution. Generally, a manufacturer produces a product and sells it to a distributor. The role of the distributor is to stock product in relative close proximity to their retail customers. The distributor also sells the product to the retailer for the manufacturer. Historically this has also provided a layer of financial protection to the manufacturer as the distributor was the one who had to deal with collecting from the many retailers they served. This system worked extremely well when long distance business communication was by mail and transportation was by railcar and truck load.

Times have changed. Distributors have moved from being primarily service driven to being primarily financially driven and the inventory that once was considered an asset is now considered a liability. Turns and Cash Flow have become the driving forces in the Distribution world. Consequently the cost of carrying inventory has been shifted back to the manufacturer in the form of longer average days outstanding on receivables, smaller more frequent orders or both.

Distribution has, for the most part, reduced or eliminated the idea of selling the manufacturers products. What once were exclusive arrangements are now more aptly viewed as cherry picking the best sellers from all of the recognized vendors in the market. This creates an homogenized marketplace where every retailer is selling basically the same offering as every other retailer because the distributor has left them very little in the way of options to differentiate. The selling effort if it exists at all, is focused on selling programs and services that the distributor can provide to the retailer.

The financial insulation that distribution once provided to retailers has evaporated over the last thirty years as the number of Hardware Distributors has consolidated to a relative handful. The manufacturers have learned that as the consolidation continues the risk of loss increases dramatically as the number of distributor’s decreases.

Finally, distribution has lost market share to the folks like Big Bazaar and Home Shop who have found ways to reduce the costs associated with stocking, picking and reshipping inventory. This combined with their financial focus has forced them into a mindset that wants to limit the number of vendors and skis. For some time now, we have been faced with a situation where distributors are reluctant to add new vendors with limited product offerings even if it is a superior product. The time and cost of adding a vendor to the system combined with the cost of monitoring and issuing purchase orders for single items discourages if not eliminates the possibility of adding a better mouse trap if it is a standalone product unless the manufacturer can prove that it will be a best seller.

1.1 DISTRIBUTION CHANNEL STRUCTURE

Every country has its own unique distribution structure that takes products from buyers to sellers.

The role of distribution is to provide to a company the accomplishment of the task of delivering the product at a right time, place, and quantity at a minimum cost (Bucklin, 1966). Although the distribution problem was one of the first issues analyzed by the marketing researchers in the beginning of the 20th century (Bartels, 1965), the distribution problem has an enormous importance in the marketing literature and managerial contexts today.
Empirical research in this area must be set up to develop more profitable ways to
companies to reach the market.

According to Stern and Reve (1980), channel theory is divided into two orientations: an
economic approach and other behavioral. First analyzes the efficiency of the channel,
studying issues like channel design and structure. The latter is sociological oriented, focusing
on power, cooperation, satisfaction and conflict in channels.

The structure of channels requires a set of strategic decisions (Rosenbloom 1999; Lilien et al.
1992): the first decision determines the appropriate intermediary type, e.g. wholesaler,
retailer, franchise, broker, direct sales force; second is distribution intensity (how many
intermediaries to include and number of levels of a channel structure).

The second strategic decision in a channel, distribution intensity, is a key element of the
channel strategy, and often dictate all the channel structure influencing the type of
intermediary, the coverage of the market, and the kind of distribution (direct or indirect). A
variety of approaches has been taken to distribution channel, but distribution structure and
intensity has received little attention in academic research (Rangan, et al. 1992; Frazier and
Lassar, 1996; Rodriguez et al., 2005; Gattorna 1978). Marketing researchers are more
concerned to management issues like power, conflict, satisfaction and performance.

Few empirical studies were conducted to study distribution intensity and structure. Most of
ideas concerning channel design issues are underlying and theoretical that predicts the
choice of channel based in some factors. Although these constructs have been well
accepted by marketing scholars, empirical research has to be done to confirm these
assumptions and to find new factors determining the channel choice. Hence, this article
aims to review the distribution structure literature and builds a framework analysis to be
tested by empirical studies.

The structure of a distribution channel is determined by the marketing functions that
specific organizations perform. Some channel members perform single functions-carriers
transport products, and public warehouses store them. Others, such as third party logistics
providers and wholesalers, perform multiple functions. Channel structure affects (1) control
over the performance of functions, (2) the speed of delivery and communication, and (3) the
cost of operations.

While a direct manufacturer-to-user channel usually gives management greater control
over the performance of marketing functions, distribution costs normally are higher, making
it necessary for the firm to have substantial sales volume or market concentration. With
indirect channels, the external institutions or agencies (e.g. carriers, warehouses,
wholesalers, retailers) assume much of the cost burden and risk, so the manufacturer
receives less revenue per unit.

Most distribution channels are loosely structured networks of vertically aligned firms. The
specific structure depends to a large extent on the nature of the product and the firm's
target market. There is no "best" channel structure, for all firms producing similar products.
Management must determine channel structure within the framework of the firm's
 corporate and marketing objectives, its operating philosophy, its strengths and weaknesses,
and its infrastructure of manufacturing facilities and warehouses. If the firm has targeted
multiple market segments, management may have to develop multiple channels to service
these markets efficiently.

The Marketing Distribution channel is a business structure, reaching from the point of
product origin to the consumer, through which a manufacturer motivates, communicates,
sells, ships, stores, delivers, and services both consumers and products. The Marketing channels can have many different structures. For example the members of the channel that make up the structure may number several or as few as of their products have a direct or one step channel structure with only two members, other channel structures may contain six or more steps between the manufacturers and consumers.

Most Marketing distribution channel will be structured with wholesalers and retailers between the manufacturers and the users or consumer of products. Wholesalers may have one or several hundred supplies and most satisfy not only their supplier's needs but also those of the retailers whom they sell to end service. Retailers are the wholesaler's customers. When wholesalers are a part of the Marketing distribution channel, they usually represent the first step in the channel structure. Manufacturer that do not sell to wholesaler assume both the manufacturing and wholesaling functions. Likewise, wholesalers that sell directly to the user function as retailers.

Retailers who buy from wholesalers usually need to have several wholesalers as their sources of supply. Retailers need to first satisfy the needs of the consumers who are their customers. To offer users a sufficient choice or product selection, they may stock products from a few or as many as several hundred manufacturers. There may also be requirements, to which retailers must conform, that are established by manufacturers.

Consumers and users make up the final members of the marketing channels. There is the distinction between the two because for industrial product or services it is frequently the case that the final buyers of a product will not consume it as they would toothpaste or cornflakes. If equipment is involved, such as tractor or forklift, the product is used and eventually used up, worn out and replaced. When consumption means product disappearance, as with some marketing definition then the term consumer may be universally applied.

The marketing distribution channel structure may consist of many members or it may function as a direct manufacturer to user channel. Moreover an effective and satisfying relationship between manufacturers and marketing intermediaries is difficult to establish and maintain. This is true because there are so many people at different levels in the marketing distribution channel with their own priorities to satisfy. The manufacturers that can keep their products, programs and communications near the top of their channel members list of priorities will establish the most effective and productive marketing channel. Each of the marketing channel members, whether manufacturers, wholesalers, retailers or users have obligations to perform if the marketing channel is to work efficiently and to the satisfaction of all.

The structure of marketing channels is obviously developed to serve the consumers and should begin with knowledge of their purchasing habits rather than with the manufacturer’s desire to develop a specific channel structure. To plan the channel efficiently, it is necessary to know what levels of services consumers’ desire. According to Coughlan et al. (2002), the extension of these services to the consumer, and faulty planning and/or execution can seriously compromise the relationship of the parties, with serious consequences to the product image. In general, these decisions involve elements such as size of the lots (breaking bulks) that will be offered, degree of market decentralization, wait time for products, variety of products and service support.

1.11 FACTORS DETERMINING DISTRIBUTION STRUCTURE
The primary theoretical statement links distribution structure with class of products (Frazier and Lassar, 1996; Rangan et al., 1992). The class of products are related with the classification of consumer goods (convenience, shopping and specialty) first proposed by Copeland (1923). His intent was to create a guide for the development of marketing strategies by manufacturers. His purpose was to show how consumer buying habits affected the type of channel of distribution and promotional strategy (Bucklin, 1962). According to these characteristics convenience goods are associated with intensive distribution, shopping goods require selective distribution and specialty goods are related with exclusive distribution. Convenience goods are consumer goods and services that the consumer buys frequently, immediately and with a minimum of comparison effort. Shopping products are less frequently purchased and consumers spend considerable time and effort gathering information and comparing alternative brands. Specialty products are consumer goods with characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort.

1.2 DISTRIBUTION SYSTEMS

Mindful of the factors affecting distribution decisions (i.e., marketing decision issues and relationship issues), the marketer has several options to choose from when settling on a design for their distribution network. We stress the word "may" since while in theory an option would appear to be available, marketing decision factors (e.g., product, promotion, pricing, target markets) or the nature of distribution channel relationships may not permit the marketer to pursue a particular option. For example, selling through a desired retailer may not be feasible if the retailer refuses to handle a product.

For marketers the choice of distribution design comes down to the following options:
- Direct Distribution Systems
- Indirect Distribution Systems
- Multi-Channel or Hybrid Distribution Systems

Distribution Systems: Direct

With a direct distribution system the marketer reaches the intended final user of their product by distributing the product directly to the customer. That is, there are no other parties involved in the distribution process that take ownership of the product. The direct system can be further divided by the method of communication that takes place when a sale occurs. These methods are:

Direct Marketing Systems – With this system the customer places the order either through information gained from non-personal contact with the marketer, such as by visiting the marketer's website or ordering from the marketer's catalog, or through personal communication with a customer representative who is not a salesperson, such as through toll-free telephone ordering.

Direct Retail Systems – This type of system exists when a product marketer also operates their own retail outlets.
Personal Selling Systems – The key to this direct distribution system is that a person whose main responsibility involves creating and managing sales (e.g., salesperson) is involved in the distribution process, generally by persuading the buyer to place an order. While the order itself may not be handled by the salesperson (e.g., buyer physically places the order online or by phone) the salesperson plays a role in generating the sales.

Assisted Marketing Systems – Under the assisted marketing system, the marketer relies on others to help communicate the marketer’s products but handles distribution directly to the customer. The classic example of assisted marketing systems is eBay which helps bring buyers and sellers together for a fee. Other agents and brokers would also fall into this category.

Distribution Systems: Indirect

With an indirect distribution system the marketer reaches the intended final user with the help of others. These resellers generally take ownership of the product, though in some cases they may sell products on a consignment basis (i.e., only pay the supplying company if the product is sold). Under this system middlemen may be expected to assume many responsibilities to help sell the product.

Indirect methods include:

Single-Party Selling System - Under this system the marketer engages another party who then sells and distributes directly to the final customer. This is most likely to occur when the product is sold through large store-based retail chains or through online retailers, in which case it is often referred to as a trade selling system.

Multiple-Party Selling System – This indirect distribution system has the product passing through two or more distributors before reaching the final customer. The most likely scenario is when a wholesaler purchases from the manufacturer and sells the product to retailers.

Distribution Systems: Multi-Channel (Hybrid)

In cases where a marketer utilizes more than one distribution design the marketer is following a multi-channel or hybrid distribution system. Starbucks follows this approach as their distribution design includes using a direct retail system by selling in company-owned stores, a direct marketing system by selling via direct mail, and a single-party selling system by selling through grocery stores (they also use other distribution systems).

The multi-channel approach expands distribution and allows the marketer to reach a wider market, however the marketer must be careful with this approach due to the potential for channel conflict.

1.21 THE NATURE OF DISTRIBUTION

Distribution arrangements tend to be long term in nature. Because of this time horizon, channel decisions are usually classed as strategic, rather than tactical or operational ones. There are two reasons for treating channel decisions in this way:

Channel decisions have a direct effect on the rest of the firm’s marketing activities. For example, the selection of target markets is affected by, and in turn affects, channel design.
and choice. Similarly, decisions about individual marketing mix elements (e.g. pricing) must reflect a company’s channel choice.

Once established, a company's channel system may be difficult to change, at least in the short term. Although distribution channels are not impervious to change and new channels emerge as old established channels fade, few companies are able to change their channel structure with the same ease of frequency as they can change other marketing mix variables like price or advertising strategies. Because channel arrangements are likely to change slowly over time, manufacturers need to continually monitor the distributive environment and reassess their existing channel structure in an attempt to exploit and capitalise on any change. However, they should be aware of developments that are taking place, so as not to be caught off guard. Nowhere is this more true than in the case of the speed of development of the internet as a direct retailing medium, that has caught many traditional distributors off balance.

- To create a good distribution program, focus on the needs of our end-users.
- If they need personalized service, we can utilize a local dealer network or reseller program to provide that service.
- If our users prefer to buy online, we can create an e-commerce website and fulfillment system and sell direct; we can also sell to another online retailer or a distributor to offer our product on their own sites.
- We can build our own specialized sales team to prospect and close deals directly with customers.

Wholesalers, resellers, retailers, consultants and agents already have resources and relationships to quickly bring our product to market. If we sell through these groups instead of (or in addition to) selling direct, treat the entire channel as a group of customers — and they are, since they’re buying our product and re-selling it. Understand their needs and deliver strong marketing programs; we’ll maximize everyone’s revenue in the process.

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<th>Best Case</th>
<th>Neutral Case</th>
<th>Worst Case</th>
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<td>We've used one or more distribution channels to grow our revenue and market share more quickly than we would have otherwise. Our end-users get the information and service they need before and after the sale. If we reach our end-user through wholesalers, VARs or other channel partners, we’ve created many successful marketing programs to drive revenue through our channel and we’re committed to their success.</td>
<td>We’re using one or more distribution channels with average success. We may not have as many channel partners as we’d like, but our current system is working moderately well. We devote resources to the program, but we wonder whether we’d be better off building an alternative distribution method — one that could help us grow more aggressively than we are now.</td>
<td>We probably aren’t hitting our revenue goals because our distribution strategy is in trouble. With our current system, we may not be effectively reaching our end-users; our prospects probably aren’t getting the information and service they need to buy our product. Our current system may also be difficult to manage. For example, channel members may not sell at our suggested price; they don’t follow up on leads we deliver; they don’t service the product very well and we’re taking calls from angry customers.</td>
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1.22 TYPES OF DISTRIBUTION SYSTEM
Direct marketing systems: Where distances between producers and consumers are short, direct transactions between the two groups can take place. Farmers who elect to market their products directly have to trade off the benefits of doing so against the time they are away from farming activities. In the case of industrial markets, direct transactions are common where there are a relatively small number of customers (e.g. equipment designed for abattoirs).

Retail institutions: The retail sector includes a wide range of outlets such as merchants, equipment dealers (in the case of farmers), department stores, supermarkets and smaller grocery stores. They are characterized by their dealing with the end user of the product or service.

Wholesalers: Wholesalers make marketing systems more efficient by buying a variety of products, in fairly large quantities, and selling these items on to other businesses who require relatively small quantities of a variety of goods. Wholesalers may service consumer and/or industrial retail outlets. For instance, fruit and vegetable wholesalers often sell to both grocery stores (consumer) and hotels, hospitals, schools, prisons, etc. (industrial). Some wholesalers offer a full-service i.e. they perform all the distribution functions such as selling, pre-delivery inspection (in the case of machinery), technical advice, extension of credit, storage, and delivery. Other wholesalers provide only a limited service. An example would be cash-and-carry wholesalers who require customers to collect the goods and to pay cash. Patrons of cash-and-carry wholesalers are usually compensated for the lower service levels by lower prices.

1.22 HOW TO DESIGN A GOOD DISTRIBUTION SYSTEM

A manufacturing company manufactures products. It then needs to deliver the manufactured products to the consumers. Many times, the place of manufacturing and the place where the consumers require the products is very far away from each other. For example: Tata Motors has a “Indica car” manufacturing plant in Pune but it’s customers are all over India. So, Tata Motors needs to set up a efficient distribution system so that the products reach it consumers. In case of some products like perishable food products etc. Physical distribution is a very important part of the whole business. The transportation of “Amul butter” to the stores that sell “Amul Butter” is a big challenge. While transportation, the butter has to be stored properly so that it does not get contaminated. To completely understand and appreciate physical distribution, consider the case of “Amul Butter”. Amul is made in “kaira district” somewhere in Gujarat. From there it is distributed all over India and it is available at the local store near you. The distribution guys have to make sure that, every little “Banya shop” on every little street of our extremely large country gets Amul Butter. To add to this enormous challenge, Amul butter is a perishable milk based product. It has to be stored and transported properly so that it does not get spoilt on the way. And while the distribution guys do all this, they have to make sure they keep the costs under control. The above example makes one think that the distribution guys do a whole lot of work. However, in practice what they do is, set up distribution channels.

1.24 DISTRIBUTION MODELS
Definition: The manner in which goods move from the manufacturer to the outlet where the consumer purchases them; in some marketplaces, it's a very complex channel, including distributors, wholesaler, jobbers and brokers.

When deciding how to distribute your product, use the traditional distribution model as a starting point. The conventional distribution model has three levels: the producer, the wholesaler and the retailer. This is a time-tested system with many well-established members at all levels.

The conventional distribution model, however, calls for all parties in the channel to protect their own best interests. Thus, retailers are pitted against wholesalers, and wholesalers try to best producers. This web of conflicting interests sometimes works to the detriment of the entire system. For instance, a producer may try to bypass the wholesaler and go straight to retailers, prompting the wholesaler to retaliate by dropping the producer's products.

The primary alternative distribution channel is direct distribution. This is the model Dell, Avon and many other successful companies use. It calls for you to sell and deliver your product yourself, using your own salespeople and warehouses. Going direct can cut significant costs from the system because you don't have to provide a profit for intermediaries such as wholesalers and retailers. But slicing two steps from the traditional distribution channel tends to alienate wholesalers and retailers. Before you decide to go direct, make sure you don't need these other channels of distribution—because if you decide to use them later, they may not be available to you.

There are many ways to modify traditional distribution. For instance, as in the above example, a producer could use a two-level distribution framework by selling direct to retailers and cutting out only the wholesalers. A retailer could do the same thing by going directly to manufacturers—this is one of the strategies Mega-Mart has used so effectively. Look around at the many ways your competitors and people in other industries set up their distribution channels. One of these models may well be right, with some modification, for you.

Often, your choice of a distribution plan will be dictated—or at least strongly influenced—by various factors relating to your product, your customers and the way they'll use it. For instance, if your product—or the new one on which you hope to build your growth plan—is perishable, then the need to provide refrigerated storage and transport will significantly restrict your choices of distribution methods. Size is another issue. If your product takes up a lot of display space, this consideration will weigh heavily when you're selecting ways to transport and display it. That's why automotive dealerships are usually located outside central business and shopping districts, where costs for display space for cars and trucks would eat up profits.

Another concern when it comes to selecting a distribution method is the way the product is purchased by consumers. For instance, clothing shoppers usually want to try garments on before purchasing them. So your means of distribution is going to have to include a nearby fitting room, like the ones found in department stores. Many products are best sold with the help of a live demonstration, so if yours is one of those products, your distribution plan will have to include some way of conducting these demonstrations. Multilevel network marketing plans, for instance, often include excellent opportunities to demonstrate products in front of live audiences. If your product is often bought on impulse, then it will be better off distributed in a manner that will display it in a high-traffic area such as in the checkout line at a grocery store.
The characteristics of your customers may also dictate distribution. If customers buy your product frequently, there'll be more outlets for its distribution. Videotape rental stores outnumber swimming pool contractors, for example, because people may rent several videos a week but only build a new pool every few years. The distance the customer is willing to travel to purchase your product or service is another key consideration. If you have a one-of-a-kind item in short supply and high demand, you may be wise to limit distribution to your own location. This will give you ultimate control over costs and pricing because highly motivated customers will be willing to travel to you to get what they want.

1.25 DISTRIBUTION STRATEGY

A distribution channel links the manufacturer of a product with the end users i.e. the consumers. Decisions regarding distribution channels are of great significance to the manufacturers. Organizations can have strategic distribution systems that help them to examine the current distribution system and decide on the distribution system that can be useful in the future. In designing a distribution channel for an organization, there are mainly three steps – identifying the functions to be performed by the distribution system, designing the channel, and putting the structure into operation. There are different types of distribution channels depending on the number of levels that exist between the producer and the consumer. In deciding on the kind of distribution strategy to be used, there are various considerations to be kept in mind – considerations on middlemen, customers, product, price, etc. The middlemen should have the necessary financial capacity to carry out the task effectively. Customers should be able to get the products conveniently. Product features to be considered include durability, toughness etc. The price of the product also requires consideration in deciding the distribution strategies.

1.26 DISTRIBUTION INTENSITY

There are three broad options - intensive, selective and exclusive distribution: Intensive distribution aims to provide saturation coverage of the market by using all available outlets. For many products, total sales are directly linked to the number of outlets used (e.g. cigarettes, beer). Intensive distribution is usually required where customers have a range of acceptable brands to chose from. In other words, if one brand is not available, a customer will simply choose another. Selective distribution involves a producer using a limited number of outlets in a geographical area to sell products. An advantage of this approach is that the producer can choose the most appropriate or best-performing outlets and focus effort (e.g. training) on them. Selective distribution works best when consumers are prepared to "shop around" - in other words - they have a preference for a particular brand or price and will search out the outlets that supply. Exclusive distribution is an extreme form of selective distribution in which only one wholesaler, retailer or distributor is used in a specific geographical area. We will discuss more about it in next chapters.

1.27 DISTRIBUTION DECISIONS
Product decisions may be the most important of all marketing decisions since these lead directly to the reasons (i.e., offer benefits that satisfy needs) why customers decide to make a purchase. But having a strong product does little good if customers are not able to easily and conveniently obtain it. With this in mind we turn to the second major marketing decision area — distribution.

Distribution decisions focus on establishing a system that, at its basic level, allows customers to gain access and purchase a marketer’s product. However, marketers may find that getting to the point at which a customer can acquire a product is complicated, time consuming, and expensive. The bottom line is a marketer’s distribution system must be both effective (i.e., delivers a good or service to the right place, in the right amount, in the right condition) and efficient (i.e., delivers at the right time and for the right cost). Yet, as we will see, achieving these goals takes considerable effort.

Distribution decisions are relevant for nearly all types of products. While it is easy to see how distribution decisions impact physical goods, such as laundry detergent or truck parts, distribution is equally important for digital goods (e.g., television programming, downloadable music) and services (e.g., income tax services). In fact, while the Internet is playing a major role in changing product distribution and is perceived to offer more opportunities for reaching customers, online marketers still face the same distribution issues and obstacles as those faced by offline marketers.

In order to facilitate an effective and efficient distribution system many decisions must be made including (but certainly not limited to):

- Assessing the best distribution channels for getting products to customers
- Determining whether a reseller network is needed to assist in the distribution process
- Arranging a reliable ordering system that allows customers to place orders
- Creating a delivery system for transporting the product to the customer

For tangible and digital goods, establishing facilities for product storage

In this part of our highly detailed Principles of Marketing Tutorials we cover the basics of distribution including defining what channels of distribution are and why these are important. We will also introduce the key parties in a distribution system, such as the reseller network, though much greater coverage will be given to channel partners and to technical aspects of distribution (e.g., ordering, delivery, storage, etc.) in our next chapters.

1.28 DISTRIBUTION AND SMALL BUSINESSES

Small businesses typically inherit a distribution channel. The founding owner may be quite expert in distribution by having worked in the industry before. In the absence of personal knowledge, the best approach to learning about the channel rapidly is by immersion in the trade literature. Trade magazines will rapidly teach the business owner such fundamentals as major shows where the industry regularly meets. Visiting such a show and talking to competitors, buyers, and sellers will soon reveal the opportunities open to the business. The owner will probably encounter sales rep organizations, see retail and wholesale distributors at work, and will learn the one or two major preferred means of reaching the market used by the industry.

The owner will rapidly discover that choices are few and the channels already well developed. Learning exactly how to fit the business’s products or services into existing
channels will become the primary task. Effective entrance may necessitate a different way of packaging the product than initially envisioned, different methods of pricing, the use of incentives not imagined before but common in the industry, and so on.

Special difficulties face the new business which enters an activity for which distribution channels are poorly developed. Such will often be the case where the business is a new kind of service not yet "co modified." An extreme example might be decorating ceilings with original art. The business owner may have to discard his or her original intent to sell the service through art stores but discover that very high-end furniture dealers are the right distribution venue—and the mode of contact will be to decorate the ceilings of such dealers free of charge to attract the eyes of wealthy shoppers. Another venue may be by working closely with stores that sell special lighting equipment—which would, of course, be an element in ceiling art. Consulting businesses with abstract product, e.g. futures studies in support of marketing strategy, may similarly have to create their own distribution channel by the sheer rock-breaking methods of trial and error. Communication being a central element in the distribution of goods and services, such businesses may attempt to create industry specific futures projections and attempt to publish them in industry journals. This may lead to invitations to a conference. Where there is a will, there is a way ... These examples illustrate how finding the distribution channel arises, gradually, from exploring the product or service itself.

1.3 CHANNEL STRUCTURE

Channel organizations, or the arrangement of the parties, fall into a number of groups:

Conventional marketing channels
where there is a series of independent parties linking the manufacturers and the consumers.
✓ international cosmetics companies
✓ local agents and wholesalers
✓ retailers (Chemists and specialty shops)

VMS
Vertical Marketing Systems, where the channel parties act as a single unit whether through ownership or formal agreements and work together to gain maximum leverage for their products.
✓ BHP manufacture steel and sell to their division
✓ tubemakers, who on sell modified products to the trade
✓ wholesalers and retailers

Co-operatives
which are loosely joined channel partners.
✓ Fertilizer manufacturers—who produce a range of products and sell to co-partners.
✓ Rural agents—who are co members and sell to.
✓ Farmers

Franchises
which is a channel member that links several stages of the product distribution process. This is becoming a very popular form of marketing channel.
✓ McDonalds—the franchiser is linked with.
✓ Store owners—who are franchisee and provide fast food to us who are the.
✓ consumers
1.31 CHANNEL MARKETING

Often the question comes up, what is a channel? A channel to market is the method of getting your product into the customer’s (the end user’s) hand. This can either be through direct sales, or through a reseller. Direct sales can occur in person, via the phone, the web or mail. Indirect, or channel sales typically refers to sales through a reseller. A reseller can order from you direct (one tier between you and the end user), or from a wholesale distributor—you would sell to a wholesale distributor and they in turn would sell to multiple resellers (two tiers between you and the end user (hence the common term “two-tier” distribution)).

Note: some companies or divisions (i.e., Motorola semiconductor, etc.) call the reseller the distributor—this is correct, but not in the typical and more common two-tier distribution model. Hence, it is important to get the channel terminology down whenever talking about the channel—or you could be in violent agreement, and not know it.

A marketing channel can be understood as an organized network of agencies and institutions, which perform activities required to link producers with users to accomplish the marketing task. Marketing channels are of a dynamic nature as managers constantly seek to improve or make them better and thereby leverage them as a competitive advantage. Marketing channels perform various roles which range from filling the gaps that occur between the production and consumption process, reduction in time and expenditure of the manufacturer in reaching the customers, aggregating the narrow product ranges of individual producers to provide the wide product assortment that customers require, appraising manufacturers from time to time of the requirements of customers and promoting the products of manufacturers through efficient product displays and other promotional techniques.

Many producers of products and services do not sell directly to their end users. They use a marketing channel. In its most simplistic form, a marketing channel performs the work of moving goods from producers to consumers. A marketing channel includes one or more marketing intermediaries performing a variety of functions. Each channel member:
1. Provides value;
2. Performs a function; and,
3. Expects an economic return.

Channel marketing most often relates to the sale of products. However, it is not limited to the distribution of physical goods. Providers of services and ideas also benefit from channel marketing. For example, banks and credit unions depend on a network of ATMs to offer their services. Financial management and insurance organizations disseminate information through systems provided by other vendors. Health and medical organizations depend on a network of providers to offer their services. In the cases above, channel marketing offers better services at costs lower than offerings without the assistance of channel members. Organizations can achieve differentiation through their distribution channels. Each of these channels may offer different coverage, expertise, and performance. They may also realize economies of scale that channels of distribution often offer.
Marketing channel decisions are among the most critical decisions facing an organization. The chosen channels intimately affect all other marketing decisions. The organization's pricing depends on whether it uses mass merchandisers or high-quality boutiques. The firm's sales force and advertising decisions depend on how much training and motivation the dealers need.

Channel marketing proves to be a "fit" if the process better responds to the desires of the target market than the organization could alone. An organization must answer the question: "Will our customers or clients be better served by channel members rather than having us perform these functions?"

**Lot size**
How many "units" does the end user want per transaction? A household may purchase one personal computer per transaction. The customer service department of Eddie Bauer may purchase 20 personal computers at a time. Channel members may have systems designed to address the needs of both.

**Waiting time**
The speed of providing faster service may be magnified through the systems that channel members offer.

**Location**
Getting the product in the right place at the right time is important. Arranging for "authorized dealerships" throughout a wide geographic area allows products to be conveniently and affordably accessible to customers.

**Product variety**
The ability to purchase other products from a retail store may enhance the sales and/or margins of all products offered by attracting customers who appreciate the variety of products.

**Service support**
Channel members may be better equipped to offer add-on services. This may include advertising, credit, delivery, installation, and repair to enhance the overall value provided to the customer.

The first step is to select intermediaries that complement the product or service. These channel members should have the goal of offering attractive attributes to the end user. Channel members also need to be motivated to continue to provide value. Motivation typically exists in the form of profitability through stimulating sales. The overall goal is to build long-term and supportive relationships among channel members that are successful for all involved.

**1.32 CHANNEL RESOURCES**

In a functional sense, these are some examples of the types of resources that marketing channels offer. Each adds value to the promotion, the transaction, or the services associated with the purchase:

- Accounting services
- Advertising planning assistance
- Catalog services
- Co-op advertising programs
- Consumer advertising
- Data processing programs and systems
• Dealer shows and events
• Drop-ship programs
• Employee training
• Financing
• Forms and printing assistance
• Insurance programs
• Inventory control systems
• Management consultation services
• Merchandising assistance
• Ordering and processing systems
• Point-of-sale identification
• Private-label merchandise
• Store planning and layout

Through their acquired expertise and economies of scale, channel members offer these activities more efficiently than many organizations, particularly smaller ones, could provide on their own. The marketing channel allows the producer and the channel members do what they each do best in higher volumes.

1.33 CHANNEL MANAGEMENT

Managing channels is one of the most important dimensions of businesses across the world for improving their value in the market. Customers are constantly on the lookout for convenience and service, when purchasing goods. Effective channel management helps companies decrease costs and reach potential customers profitably. Effective channel management involves proper recruitment of channel members. Recruiting channel members should be a continuous process. In the recruitment process, screening involves elimination of applicants who do not match the criteria set for the position. After effective screening, the company has to make the final selection based on some criteria. These criteria can be divided into sales factors, product factors, experience factors, administrative factors and risk factors. After selecting channel members, they have to be constantly evaluated and based on their performance, the company will either retain existing channel members or try to forge relationships with new channel members.

Channel members can be evaluated by using parameters like sales quota attainment, average inventory levels, proper management of inventory, channel members’ cooperation in promotional and training programmes, etc. The distribution requirements of a company will keep changing according to changes in the product life cycle. Modifying channels accordingly is essential for the success of the organization. However, care should be taken in dealing with channel members for proper channel management. Conflict management among channel members is another important activity for the management of the organization.

Channel sales is the overall account liaison and is primarily responsible for selling product into distribution and the reseller channel (retail, VARs, system integrators). Channel marketing is responsible for ensuring that product in distributor and reseller locations gets sold out. In essence Channel sales ensures sell-in, Channel Marketing ensures channel sell-through.
A Channel Marketing Manager is typically responsible for the sell-through function. There are cases where a Channel Marketing Manager handles all sell-in and sell-through via the channel, and the internal sales people concentrate on selling direct--this may vary according to your organization. This section of Chainmail is primarily for the Channel Marketing Manager who works in partnership with the head of Channel Sales to:

- Establish a competitive reseller program (authorization, margins, levels, etc.)
- Help recruit resellers
- Prepare the proper reseller collateral
- Create reseller kits (sell sheets, product slicks, catalogs, reseller pricing, NFR product, distribution part numbers, contact information, reviews, etc.)
- Manage reseller database and Partner Relationship Management (PRM) software
- Jointly invest the market development (MDF) and Co-op funds to increase channel sell-through.
- This sell-through is accomplished through managing store, VAR and distributor promotions (spiffs, contest, rebates, specials, training, promotions, etc.),
- Ensuring proper merchandising (retail only)
- Ensuring adequate stocking levels
- Running reseller education
- Setting up motivational contest to reward sales
- Manage seeding programs.

This person is also part of the marketing team and participates with Product Marketing, PR, the Webmaster (for the reseller portal) and Advertising to ensure that the specific reseller needs are met.

MANAGEMENT OF CHANNEL SYSTEMS

Although middlemen can offer greater distribution economy to producers, gaining cooperation from these middlemen can be problematic. Middlemen must continuously be motivated and stimulated to perform at the highest level. In order to gain such a high level of performance, manufacturers need some sort of leverage. Researchers have distinguished five bases of power: coercive (threats if the middlemen do not comply), reward (extra benefits for compliance), legitimate (power by position—rank or contract), expert (special knowledge), and referent (manufacturer is highly respected by the middlemen).

As new institutions emerge or products enter different life-cycle phases, distribution channels change and evolve. With these types of changes, no matter how well the channel is designed and managed, conflict is inevitable. Often this conflict develops because the interests of the independent businesses do not coincide. For example, franchisers, because they receive a percentage of sales, typically want their franchisees to maximize sales, while the franchisees want to maximize their profits, not sales. The conflict that arises may be vertical, horizontal, or multichannel in nature. When the Ford Motor Company comes into conflict with its dealers, this is a vertical channel conflict. Horizontal channel conflict arises when a franchisee in a neighboring town feels a fellow franchisee has infringed on its territory. Finally, multichannel conflict occurs when a manufacturer has established two or more channels that compete against each other in selling to the same market. For example, a major tire manufacturer may begin selling its tires through mass merchandisers, much to the dismay of its independent tire dealers.
Marketing channel management

Marketing channel management refers to the process of analyzing, planning, organizing, and controlling a firm’s marketing channels. It comprises seven decision areas: (1) formulating channel strategy, (2) designing marketing channels, (3) selecting channel members, (4) motivating channel members, (5) coordinating channel strategy with channel members, (6) assessing channel member performance, and (7) managing channel conflict. All seven areas are critical to superior market performance and long-term customer loyalty. Consequently, the linkage of these seven channel functions with sales management is the focus of our investigation. Although viable companies must skillfully manage all of their channel activities, which sales managers are doing which of the seven areas is unclear. Ambiguity surrounding the responsibility for and performance of any of these important channel functions can adversely affect customer relationships and company profits.

Distribution channels need to be managed actively. Producers’ task does not end once the merchandise is sold to the distributor. The distributors need to be motivated to focus on selling the company’s products, and their performance monitored to check that sales volumes are adequate. Distribution management can take different forms such as adopting a mix of distribution channels (such as own sales force for larger customers and agents for smaller prospects), providing training and incentives to the distributors and their personnel, and supporting their efforts through publicity campaigns.

Distributors have their own needs and the producer who sells through them have to meet these as well as the final customer needs. In fact, producers who can create an attractive channel value proposition, which is essentially a business model that helps the distributor operate with excellent profit potential, will be more effective in selling through them. Franchising can be seen to be such a business model.

Selling direct to consumers through mail order and Internet marketing is also an option provided an adequate back-end is in place to service all the numerous orders. Distribution on a global scale has been made feasible by the Internet. For small operations, even door-to-door selling might prove a worthwhile option.

1.34 CHANNEL ARRANGEMENT

The distribution channel consists of many parties each seeking to meet their own business objectives. Clearly for the channel to work well, relationships between channel members must be strong with each member understanding and trusting others on whom they depend for product distribution to flow smoothly.

For instance, a small sporting goods retailer that purchases products from a wholesaler trusts the wholesaler to deliver required items on-time in order to meet customer demand, while the wholesaler counts on the retailer to place regular orders and to make on-time payments.

Relationships in a channel are in large part a function of the arrangement that occurs between the members. These arrangements can be divided in two main categories:

> Independent Channel Arrangements
Dependent Channel Arrangement

Channel Arrangements: Independent
Under this arrangement a channel member negotiates deals with others that do not result in binding relationships. In other words, a channel member is free to make whatever arrangements they feel is in their best interest. This so-called "conventional" distribution arrangement often leads to significant conflict as individual members decide what is best for them and not necessarily for the entire channel.

On the other hand, an independent channel arrangement is less restrictive than dependent arrangements and makes it easier for a channel members to move away from relationships they feel are not working to their benefit.

Channel Arrangements: Dependent
Under this arrangement a channel member feels tied to one or more members of the distribution channel. Sometimes referred to as "vertical marketing systems" this approach makes it more difficult for an individual member to make changes to how products are distributed. However, the dependent approach provides much more stability and consistency since members are united in their goals.

Modifying channel arrangements
A producer must periodically review and modify its channel arrangements. Modification becomes necessary when the distribution channel is not working as planned, consumer buying patterns change, the market expands, new competition arises, innovative distribution channels emerge, and the product moves into later stages in the product life cycle. Consider Apple.

1.4 DISTRIBUTION-CHANNEL STRATEGY

A distribution channel links the manufacturer of a product with the end users i.e. the consumers. Decisions regarding distribution channels are of great significance to the manufacturers. Organizations can have strategic distribution systems that help them to examine the current distribution system and decide on the distribution system that can be useful in the future. In designing a distribution channel for an organization, there are mainly three steps – identifying the functions to be performed by the distribution system, designing the channel, and putting the structure into operation. There are different types of distribution channels depending on the number of levels that exist between the producer and the consumer. In deciding on the kind of distribution strategy to be used, there are various considerations to be kept in mind – considerations on middlemen, customers, product, price, etc. The middlemen should have the necessary financial capacity to carry out the task effectively. Customers should be able to get the products conveniently. Product features to be considered include durability, toughness etc. The price of the product also requires consideration in deciding the distribution strategies. Distribution intensity can be referred to in terms of the number of retail stores carrying a product in a geographical location. In intensive distribution, the manufacturer distributes the products through the maximum number of outlets. In exclusive distribution, the number of distribution channels will be very limited. In selected distribution, the number of retail outlets in a location will be greater than in the case of exclusive distribution and fewer than in the case of intensive
distribution. Distribution management is of strategic importance to any organization as distribution plays a crucial role in the success of the product in the market. Distribution management also helps to maximize profits. In managing the distribution channels, maintaining a mutually beneficial relationship between the manufacturer and distributor is necessary.

1.41 TYPES OF DISTRIBUTION CHANNEL IN MARKETING

In marketing, a distribution channel is a vehicle used by the company to sell its products and services to its customer base. In general, distribution channels are either direct, meaning the company interacts with customers directly, or indirect, meaning intermediaries perform activities on behalf of the company to reach customers. When a company develops its marketing strategy, it determines which channels it wants to use. Companies can choose to use a single channel or multiple channel strategy.

Traditional Media
Traditional media is a common distribution channel that businesses use to generate awareness about their products and services. Traditional media outlets include TV, radio, billboard advertising, magazines and newspapers. Because the cost of using these channels tends to be high, it's harder for small businesses just starting out to take advantage of them; however, local markets often have small, independent newspapers or community television stations that offer lower cost advertising options.

Direct Response
Direct response marketing is another type of distribution channel. Direct response includes a variety of communications vehicles such as postcards, sales letters, email marketing and television direct response infomercials. When you use direct response marketing, it's important to have a call-to-action. For instance, infomercials often start by showcasing a common problem, then illustrating how the product or service solves that problem. Direct response marketing can be an affordable way for companies to reach potential customers.

Public Relations
Public relations is a broad distribution channel. Today, PR involves pitching stories to media outlets and generating positive buzz about your company or brand, as well as managing your company's online presence and how your company interacts with its customers. For example, if a customer writes a negative review of your business online, your PR team might have a standard way of responding. The purpose of PR is to make people feel good about purchasing your products or services.

Internet and E-Commerce
While all the other distribution channels listed work in conjunction with the Internet -- for example, using social media as a part of a PR campaign -- there is a separate set of tools that can be used as a distribution channel that is purely made up of online activities. Internet marketing includes search engine optimization, affiliate marketing and online advertising. Search engine optimization, or SEO, involves tailoring your website and its content so when users search online for products and services similar to what your company provides, your website shows up at the top of the search results. Affiliate marketing and online advertising allow you to promote your brand on other websites with content that would be of interest to your customers.
1.42 TYPES OF CHANNEL FOR CONSUMER PRODUCTS

We’ll set aside business-to-business channels for now and look at the four simple types of distribution channels for consumer products:

- Direct channel. This is when the same company that manufactures a product sells it directly to the consumer or end user. Dell, is a direct channel marketer. Mail-order catalog sales companies, are also direct channel sellers.

- Retailer channel. This is when the producer sells to the retailer, and the retailer sells to the consumer.

- Wholesaler channel. Intermediaries play a role here, as the manufacturer sells to a wholesaler... who sells to a retailer... who sells to the consumer.

- Agent or broker channel. The most complex arrangement involves several transactions, often because the merchandise is being imported. The producer sells to an agent... who sells to a wholesaler... who sells to a retailer who finally sells to the consumer or end user.

- Dual channel or multiple channel. This term refers to the use of two or more channels to sell products to different types of customers. A lawnmower manufacturer, for example, might sell some product lines at retail and others to commercial lawn care companies, each requiring different intermediary services.

1.43 ISSUES IN ESTABLISHING DISTRIBUTION CHANNELS

Like most marketing decisions, a great deal of research and thought must go into determining how to carry out distribution activities in a way that meets a marketer’s objectives. The marketer must consider many factors when establishing a distribution system. Some factors are directly related to marketing decisions while others are affected by relationships that exist with members of the channel.

Next we examine the key factors to consider when designing a distribution strategy. We group these into two main categories:

- Marketing Decision Issues
- Channel Relationship Issues

In turn, each of these categories contains several topics of concern to marketers:

Product Issues
The nature of the product often dictates the distribution options available especially if the product requires special handling. For instance, companies selling delicate or fragile products, such as flowers, look for shipping arrangements that are different than those sought for companies selling extremely tough or durable products, such as steel beams.
Promotion Issues
Besides issues related to physical handling of products, distribution decisions are affected by the type of promotional activities needed to sell the product to customers. For products needing extensive salesperson-to-customer contact (e.g., automobile purchases) the distribution options are different than for products where customers typically require no sales assistance (i.e., bread purchases).

Pricing Issues
The desired price at which a marketer seeks to sell their product can impact how they choose to distribute. As previously mentioned, the inclusion of resellers in a marketer’s distribution strategy may affect a product’s pricing since each member of the channel seeks to make a profit for their contribution to the sale of the product. If too many channel members are involved the eventual selling price may be too high to meet sales targets in which case the marketer may explore other distribution options.

Target Market Issues
A distribution system is only effective if customers can obtain the product. Consequently, a key decision in setting up a channel arrangement is for the marketer to choose the approach that reaches customers in the most effective way possible. The most important decision with regard to reaching the target market is to determine the level of distribution coverage needed to effectively meet customer’s needs. Distribution coverage is measured in terms of the intensity by which the product is made available and is discussed in detail in the next section.

The role of distribution is to provide to a company the accomplishment of the task of delivering the product at a right time, place, and quantity at a minimum cost (Bucklin, 1966). Although the distribution problem was one of the first issues analyzed by the marketing researchers in the beginning of the 20th century (Bartels, 1965), the distribution problem has an enormous importance in the marketing literature and managerial contexts today. Empirical research in this area must be set up to develop more profitable ways to companies to reach the market.

According to Stern and Reve (1980), channel theory is divided into two orientations: an economic approach and other behavioral. First analyzes the efficiency of the channel, studying issues like channel design and structure. The latter is sociological oriented, focusing on power, cooperation, satisfaction and conflict in channels.

The Four Types of Target Marketing
Target marketing for your small business is the product of extensive research into your consumer base and the needs of the local market. There are several types of target marketing your company may take advantage of depending on how you wish to generate interest with consumers. Combining a couple strategies can garner more attention from a wider base of potential customers.

Age Target Marketing
Targeting a product to a particular age group or generational cohort is a way to concentrate your marketing efforts and generate product interest within that particular group. According to Entrepreneur’s website, extensive research is necessary for age or generational...
marketing to determine the status and living situations of consumers in your potential target group. For example, a middle-aged woman in the modern era may still be on the dating circuit and not looking to settle down any time soon just as easily as a woman in the same age group could have a family.

**Income-Sensitive Marketing**

Income-sensitive marketing seeks to target your small business's services or products to consumers of particular income and economic status. This strategy also shapes the prices you charge for your goods and services as well as the marketing campaign itself. For example, products marketed to consumers with higher incomes will usually have higher prices while those products marketed to consumers with lower incomes will usually have correspondingly lower prices. This allows more consumers in your target market group to afford your products.

**Gender-Specific Marketing**

Gender-specific marketing shapes an advertising campaign toward one gender or specific group within that gender. For example, target marketing toward pregnant women seeks to generate more interest in your small business's goods and services within that particular group. How your small business accomplishes this task depends on the outcome of your market research and gender needs within your local marketplace. This research may influence the types of images, colors and language you use in your marketing campaign to attract your target gender or gender group to your company's products or services.

**Geographic Target Marketing**

Geographic areas across the country have different product needs. Targeting a marketing campaign to meet the signature geographic demands of consumers in your marketplace can boost your company's importance and necessity in the minds of consumers. This strategy also works with seasonal marketing campaigns to take advantage of shifting consumer moods as the weather turns hot or cold.

**1.44 MARKETING CHANNELS STRATEGIES FOR CONSUMER GOODS**

This topic is initiated to discuss the various marketing channel strategies for consumer goods. The generic term goods refer to products as well as services. This is divided into part A and part B. Part A explains and discusses the general meaning of key concepts of marketing channel selection, and thus builds the foundation for part B. Part B applies the theoretical concepts to a real life company, Omkafe, and its international marketing channel selection process. The reason for choosing Omkafe, a small sized company based in Italy known for its outstanding coffee, is to demonstrate the differences in distribution patterns among countries and how the rise of the Internet and eBusiness has influenced even small companies like Omkafe. Part A concludes that a company can gain a competitive edge in deciding on an effective distributor or agent. Since there is no one right answer on how to effectively manage the flow from the manufacturer through the distribution channel to the ultimate customer, each company has to make its own decision based on its unique market, producer and product factors. Part B then enforces this conclusion, and also emphasizes the
fact that even within a company, different marketing channel selections for different market targets are appropriate and necessary.

**CHANNEL TERMINOLOGY**

<table>
<thead>
<tr>
<th>CHANNEL TITLE</th>
<th>CHANNEL’S ROLE</th>
<th>DO THEY CARRY INVENTORY?</th>
<th>DO THEY OFFER FINANCING?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broker</td>
<td>Brings buyers and sellers together</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Distributor</td>
<td>Allocates goods to wholesaler or to retailers</td>
<td>Yes</td>
<td>Potentially</td>
</tr>
<tr>
<td>Facilitator</td>
<td>Assists in the Distribution process</td>
<td>No</td>
<td>NO</td>
</tr>
<tr>
<td>Manufacturer’s Representative</td>
<td>Represents and sells for several manufacturers to perform the same functions of an internal sales force</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Merchant</td>
<td>Purchases inventory to resell</td>
<td>Yes</td>
<td>Potentially</td>
</tr>
<tr>
<td>OEM- Original Equipment Manufacturer</td>
<td>Initial producer of a product who agrees to allow another entity to include, remanufacturers, or label products under their name and sell through their distribution channels</td>
<td>Yes</td>
<td>Potentially</td>
</tr>
<tr>
<td>Retailer</td>
<td>Sells directly to the end user</td>
<td>Yes</td>
<td>Potentially</td>
</tr>
<tr>
<td>Sales Agent</td>
<td>Searches for customers and negotiates on a producer’s behalf</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Wholesaler</td>
<td>Sells to merchants who the resell to end users</td>
<td>Yes</td>
<td>Potentially</td>
</tr>
</tbody>
</table>

2. CHANNELS FOR CONSUMER PRODUCTS

2.1 INTRODUCTION
A Producer can take many routs to reach its final consumers, Marketers search for the most efficient channel from the many alternatives available. Marketing consumer convenience goods like gems or toffies differs from marketing a specialty good like a Mercedes-Benz. The two products require very different distribution channels. Likewise, the appropriate channel for a major equipment supplier like Boeing Aircraft would be unsuitable for an accessory equipment producer like Black & Decker.

There are four ways manufacturers can route products to consumers. Producers use the direct channel to sell directly to consumer. Direct marketing activities- including telemarketing, mail order and catalogue shopping and forms of electronic retailing like online shopping and shop-at-home television networks are a good example of this type of channel structure. For example, home computers users can purchase Dell computers directly over the telephone or from Dell’s internet website. There are no middlemen. Producer-owned stores and factory outlet stores-like Liberty, Bata, Pantaloons are the examples of direct channels. Farmer markets are also direct channels. See this figure;

**MARKETING CHANNELS FOR CONSUMER PRODUCTS**

At the other end of the spectrum, an agent/broker channel involves a fairly complicated process. Agent/broker channels are typically used in markets with many small manufacturers and many retailers that lack the resource to find each other. Agents or
brokers bring manufacturers and wholesalers together for negotiations, but they do not take title to merchandise. Ownership passes directly to one or more wholesalers and then to retailers. Finally, retailers sell to the ultimate consumer of the product. For example, a food broker represents buyers and sellers of grocery products. The broker acts on behalf of many different producers and negotiate the sale of their products to wholesalers that specialize in foodstuffs. These wholesalers in turn sell to grocers and convenience stores.

Most consumer products are sold through distribution channels similar to the other two alternatives: the retailer channel and the wholesaler channel. A retailer channel is most common when the retailer is large and can buy in large quantities directly from the manufacturer, Big bazaar, Car dealers are examples of retailers that often bypass a wholesaler. A wholesaler channel is commonly used for low cost items that are frequently purchased, such as cigarettes, magazines etc. For example, Amul Dairy milks sells chocolates to wholesalers in large quantities. The wholesalers then break these quantities into smaller quantities to satisfy individual retailer orders.

In a rapidly changing world, it is important for owner-managers of small plants to Improving Your Product Management and Channels of Distribution. Products, in addition to appealing to customers, must be distributed through channels that make it easy for customers to buy.

This research discusses means by which owner-managers can examine their product management and their channels of distribution for weaknesses and strengths. The purpose is to correct the former and exploit the latter. Keeping a small plant's sales "on target" involves watching trends, anticipating changes, and acting at the right time. The action may be making changes in products, in channels of distribution, or in both. A case in point is provided by poultry processors in one section of the country. They had to change their product to dried and frozen eggs when the broiler industry shifted to another section of the Nation. They sell their "new" products directly to bakeries, schools, hospitals, and other institutions. Their former distributors were meat wholesalers and retail grocery stores. Keeping products and services beamed at customers and prospects is a combination of looking backward and forward. Examination of present and past records and practices is needed to determine weaknesses and strengths in marketing. Looking ahead and planning for the necessary changes help to correct weaknesses and exploit strengths.

**PRODUCER TO CONSUMER**— This channel, often called the direct channel, includes no marketing middlemen. Practically all services and a few consumer goods are distributed through a direct channel. Examples of marketers that sell goods directly consumers include Dell computers. Producers sell directly to consumer for several reasons. They can better control the quality and price of their product. They do not have to pay for the services of middleman. And they can maintain close ties with customers.

**PRODUCER TO RETAILER TO CONSUMER**— A retailer is a middleman that buys from producers to other middlemen and sells to consumers. Producers sell directly to retailers when retailers can buy in large quantities. This channel is used most often for products that are bulky, such as furniture and automobiles, for which additional handling would increase
selling costs. It is also the usual channel for perishable products, such as fruits and vegetables and for high fashion products that must reach the consumer in the shortest possible time.

**PRODUCER TO WHOLESALER TO RETAILER TO CONSUMER**—This channel is known as the traditional channel because many consumer goods pass through wholesalers to retailers. A wholesaler is a middleman that sells products to other firms. These firms may be retailers, industrial users or other wholesalers. A producer uses wholesalers when its products are carried by so many retailers that the producer cannot deal with all of them.

**PRODUCER TO AGENT TO WHOLESALER TO RETAILER TO CONSUMER**—Producer may use agents to reach wholesalers. Agents are functional middlemen that do not take title to products and that are compensated by commissions paid by producers. Often these products are inexpensive, frequently purchased items. This channel is also used for highly seasonal products (such as Diwali decoration products) and buy producers that do not have their own sales forces.

**MULTIPLE CHANNELS FOR CONSUMER PRODUCTS**—Often a manufacturer uses a different distribution channels to reach different market segments. A manufacturer uses multiple channel, for example When the same products is sold to consumers and business customers. Multiple channels are also used to increase sales or to capture a larger share of the market.

The supply channel you use depends primarily on your product/service and your target customers. For example, if you produce perishables or offer a service you would want to get these directly to the consumer; however, if you have written a book, it would probably be to your advantage to go through a wholesaler to get to book retailers. Many producers of consumer goods use the producer to wholesaler to retailer to customer method of distribution because it allows them exposure to the wide networks that wholesalers have already established. You may also decide that you would rather use a broker for your product, but of course a broker will charge a fee and therefore add to the final price of the product. Most professional services are distributed from the provider directly to the consumer. Sometimes the help of an outside referral service may be enlisted but again, be warned that this will add to the price. You could also distribute your products through a travelling salesperson who would then expose your product to a much larger area. A good starting point is to determine what distribution channels your competitors are using since that quite often dictates what method you must use. From here, you could try to determine if there are any ways that you could streamline the channels which would allow you to undercut those competitors or improve on the distribution to the customer in any way.

In the consumer products industry, you need to generate curiosity, encourage trial and reinforce trust in your brand every day. Experian helps you:

- Better understand brand users and their preferred communication channels
- Reach consumers who have relevant lifestyles, interests and attributes
- Identify consumers experiencing life events that trigger product purchases
- Deploy cost-effective and integrated online and offline campaigns
Create personal and continuous consumer relationships
Our marketing solutions help you deliver relevant messages through multiple communication channels to establish true connections with consumers.

Increase the effectiveness of every consumer touchpoint
Today there are many useful channels for your messages, such as email, product samples, coupons and targeted direct marketing.

Create personal relationships on the Web
It is possible to make a connection with consumers via the Web – learn how.

Find new, loyal buyers
Reach households that are experiencing important life events, such as new movers, new parents, new homeowners and more.

Stand out from the crowd
Get your products and services noticed with creative sample packaging, specialty printing and the most reliable delivery anywhere.

Consumer Products
Piggy-backing. A special opportunity to gain distribution that a manufacturer would otherwise lack involves "piggy-backing." Here, a manufacturer enlists another manufacturer that already has a channel to a desired customer base, to pick up products into an existing channel.

Piggyback Marketing:
- Channel innovation that has grown in popularity.
- One manufacture distributes product by utilizing another company’s distribution channel.
- Requires that the combined product lines be complementary and appeal to the same customer.

Our global Consumer Marketing practice focuses on strengthening the consumer relevancy of some of the world’s best-known household brands. From the kitchen cabinet to the medicine cabinet, we cover the full range of consumer products—consumer packaged goods, travel and tourism, retail, consumer health and nutrition, fashion, beauty, food, beverage and consumer technology.

Today, more than ever, clients rely on us to infuse their brands with credibility and bring them to life in new and engaging ways. We use a wide array of channels to build brands—online and offline. From traditional media relations to digital influence, from media events to house parties, from celebrity outreach to key expert influencers. Our work runs the gamut to influence consumer purchases before they step foot in the store to integrating the product into consumers lives, and beyond that turning consumer enthusiasts into brand actives spreading word of mouth.

Sometimes 'news' is inherent in a brand or product. Other times we need to create news. Either way, we work with our clients to anchor brands in relevant trends, and surround and inform our target in meaningful ways. For Ford, we leveraged consumers' drive to be green to promote the Fusion Hybrid, for our Unilever portfolio of food brands we tap into consumers desire for easy and healthy meal solutions at home as everyone returns to the
kitchen and for LG, we are making life better with increased connectivity that lets us do more, faster, wherever we are.

Consumers today want to have a relationship with the brands to which they are loyal. They are more curious, resourceful and scrutinizing than ever before. Consumers want brands to help them lead better, healthier and more fulfilling lives. They want brands that 'get them.' One size does not fit all when talking to the various generations – Gen X, Gen Y, Millennials and Young Boomers. We engage with consumers in various life stages. Ultimately, we believe that the best consumer PR programs drive talk-a-ility...getting consumers to think and talk about a client's brand in new ways.

But, whether working online or offline, Consumers are more discerning than ever before. We pride ourselves on thinking first like brand marketers, then applying that thinking to the PR channel in all its expanded glory to achieve the following:

• Repeated editorial coverage whether that's via traditional journalism or 'citizen journalism';
• Engaging and unexpected experiences within their daily lives;
• 'Endorsements' from trusted messengers;
• 'Reasons to believe' that will turn them into ambassadors for our clients' brands;

Collaboration is at the heart of all we do. With and without our clients present, we easily work with other agency partners to develop ideas and programs that meet client's business objectives. We call this 360 Degree Brand Stewardship—working as part of an overall marketing communications team to ensure that PR is fully integrated.

Practice;
Expertise;
Companies.

CONSUMER DIRECT MARKETING—

Consumer Direct Marketing is Network Marketing in which the distribution chain is referred to as consumers rather than distributors. In such businesses the distributor must also buy the product for their personal use.

2.11 DOOR-TO-DOOR OR DIRECT SALE DISTRIBUTION CHANNEL

According to Kotler (1999) door-to-door retail (D2D), technically called direct sale, which was initiated with the travelling salesmen of centuries ago, has become an immense industry.

Coughlan et al. (2002) emphasize that at a certain point, the door-to-door formats are variations of other types of channels already established by the firm. These formats started in situations where a product has a high personal sale cost and high margins, and is sold in relatively small orders. A broad gamut of variations tries to find several small purchasers in a location to minimize the cost of sales and supply and provide a unique purchasing experience. The advantages of this type of sale are the convenience to the client and the personal relationship. But the high costs of employing, training, paying, and motivating the sales force can result in very high prices.

Direct Selling examines all the key criteria in running a successful and profitable direct selling business and the opportunities that exist for those with an urge to have a business of
their own. Berry explains party plan selling and the reasons for the most recent growth in network marketing.

Throughout the world, direct selling is a fast growing channel of retail distribution. In Britain the direct selling of consumer goods now exceeds £1 billion a year – rivaling that of direct marketing. The recent success of direct selling businesses is based on the competitive edge it offers to manufacturers and the opportunities it presents to those with an urge to have a small business of their own.

At the same time, this distribution channel has remained widely misunderstood and, sometimes, justly criticized for the hyped-up earnings claims of some of those involved as direct sellers.

Richard Berry puts this industry in perspective in relation to retail distribution as a whole. He explains what products can be direct sold, and what cannot, and how to select the most appropriate methods of organizing, training and motivating a sales force.

Door-to-door' direct selling
This is a relatively expensive operation, but having no wholesaler and retailer margins means that the expense is counterbalanced (e.g. Avon Cosmetics and Oriflame). It means that manufacturers' agents have to build up their clientele among customers in the local community in the expectation that they will purchase from a catalogue on a regular basis.

Door to door leaflet marketing is used for highly targeted geographic regions to help avoid postage costs. Restaurants or local businesses typically use this method by distributing menus or coupons to the doors of local residents.

Door-to-door market for yogurts
In order to conduct the analysis of the competition, information was sought on the main competing firms that act in the sector, in order to highlight the size and importance of the channel to the firm, as well as the experiences already obtained in direct door-to-door marketing. Evidences drawn from secondary market data provided a relative market position of participants in this market. Companies B and C were the main participants found in this channel, while the rest of the competitors participate only informally, and no concrete data of structured channels were identified. With this, it was possible to gather information with respect to the forms of participation and the channel structures of the main participants of the market. The necessary competencies for actions in the direct marketing channel for dairy products were identified and classified as competencies to enter the market, competencies necessary to remain in the market, and finally, competencies to grow in the market. From these surveys, an assessment of the activities and generic flows performed by the channel integrants (industry, distributors and resellers) was conducted, followed by a detailed evaluation of how each competitor structured its specific channel and how the flows and activities were distributed among the members of each channel in each competing firm. Complementing the analysis of channel structure, the main companies in this market were analyzed and compared in terms of marketing mix. As a last step, a SWOT analysis was performed on the channel and situation for company A in this market. The data utilized for these surveys is based on market information, secondary sources, and some interviews with distributors and representatives of some competitors acting in the market.
2.12 MANUFACTURING OWNED STORE

MANUFACTURING: Any industry that makes products from raw materials by the use of manual labor or machines and that is usually carried out systematically with a division of labor. In a more limited sense, manufacturing is the fabrication or assembly of components into finished products on a fairly large scale. Among the most important manufacturing industries are those that produce aircraft, automobiles, chemicals, clothing, computers, consumer electronics, electrical equipment, furniture, heavy machinery, refined petroleum products, ships, steel, and tools.

Stores, General, have been characterized by their great variety of goods and services. From colonial times through much of the nineteenth century, they constituted the typical retail unit; but in 1967 they made up less than 50,000 of the 1,763,324 retail units in the United States, and by the end of the century their numbers had been reduced still further. In their heyday general stores that were owned and operated by individuals or partners quickly followed peddlers into newly occupied regions. To survive in such limited markets, storekeepers sold great varieties of merchandise to customers, marketed crops taken in trade, operated local post offices, and provided credit and elementary banking services. Many did ultimately turn to banking, manufacturing, processing farm crops, or other specialized business services. General stores thus met an economic need at a vital stage of community development, and they also served as training schools for people who would ultimately concentrate on more specialized commercial enterprises.

Increasingly, manufacturers sell their products in their own retail stores, and many of these stores appear to be in direct competition with independent retailers; i.e., both types of retail stores are physically co-located. We analyze one way this practice affects the retail market. We find that, when independent retailers compete against company stores (instead of just against other independent retailers), they (1) charge higher prices and (2) are more willing to engage in marketing efforts on behalf of the manufacturer’s brand. Furthermore, when company stores and independent retailers compete in the same market, the company store charges higher prices and provides more marketing effort.

The branch of manufacture and trade based on the fabrication, processing, or preparation of products from raw materials and commodities. This includes all foods, chemicals, textiles, machines, and equipment. This includes all refined metals and minerals derived from extracted ores. This includes all lumber, wood, and pulp products.

NOKIA

Business success means competing profitably in all market segments, chosen technologies and geographical regions. In meeting this definition of success and sustaining a profitable business, we have the means to develop the products and services our customers want, hire and retain the best people, and reward our shareholders. A sound and profitable financial base is also essential for meeting our corporate responsibility commitments, providing us the means to invest in important ethical and environmental programs. This enhances stakeholder acceptance, which in turn supports our reputation and brand, driving the efficiency and success of our business forward. This is the company that has been introducing most of the new models of mobile phones in the world. They are introducing new and new models according to the customer taste and preferences.
Manufacturers Own Outlets

Some manufacturers viz. IFFCO, KRIBHCO, GSFC, GNFC and NFL have their own retail outlets called Farmers Service Centres or Service Centres or Farm Information Centres etc. In these outlets, agricultural inputs like fertilisers, seeds, agro-chemicals and agricultural implements etc. are made available to the farmers under one roof along with agricultural production technology literature. The main motto of these service centres is not only to provide all quality agro-inputs to the farmers but also educating them on scientific agricultural by providing technical know how in the field of agriculture. This help the farmers in increasing their agricultural productivity and profitability. Promotion activities are also carried out in the villages located around these centres (within radius of 8-10 kms) which includes demonstrations, farmers meetings, soil test campaigns, crop seminars etc. In addition, social campaigns like tree plantations, medical check-up, veterinary check up etc. are also organised. They also serve the purpose additional/alternative distribution channel for the organisation.

2.13 FRANCHISE OPERATION

To franchise means to ‘grant freedom to do something’ (derived from the French verb affranchir, meaning ‘to free’). Franchising is a system of marketing and distribution constituting a contractual relationship between a seller (franchiser) and the seller’s distributive outlets (owned by franchisees). For the franchisor, the franchise is an alternative to building 'chain stores' to distribute goods and avoid investment and liability over a chain. The franchisor's success is the success of the franchisees. The franchisee is said to have a greater incentive than a direct employee because he or she has a direct stake in the business.

Franchisor: The owner and originator of the franchise brand and policies, or principal in the principal-agent contracting relationship.

Franchisee: the individual outlet owner in the franchise, or agent in the principal-agent contracting relationship.

Master franchisee: a franchisee who owns a number of outlets.

Fractional franchise: a situation whereby the franchisee’s business encompasses a wider range of products/services than those under the franchise umbrella. For example, a general practice doctor whose reproductive health service (and perhaps product provision) is franchised, would be a fractional Franchise.

The common basic features of franchising are:

- The ownership by an organisation (the franchiser) of a name, idea, secret process or specialised piece of equipment or goodwill.
- A licence, granted by the franchiser to the franchisee, that allows the franchisee to profitably exploit that name, idea, or product.
- The licence agreement includes regulations concerning the operation of the business in which licensees exploit their rights.
- A payment by the licensee (e.g. an initial fee, royalty or share of profits) for the rights that are obtained.
Today, India is one of the biggest emerging markets for various goods and services, ranging from bare necessities to expensive luxuries. Until 1991 due to the archaic Foreign Exchange Regulation Act, 1973 (FERA), almost all sectors of goods and services relating to the consumer markets in India were secure from the grasp of foreign investors. After the repeal of FERA and the coming into force of the Foreign Exchange Management Act, 1999 (FEMA), foreign investors found their passage into India with rules for entry becoming far more favorable. Today, a convenient medium of entry by foreign companies into the Indian market is franchising. Franchising also exists as a successful business module for local companies in India within various sectors.

Franchising is highly developed in the USA, and although it is popular in the UK, it is a relatively recent phenomenon. This has led people to believe that it is an ‘imported’ idea. However, its roots can be traced back to the middle-ages when important ‘personages’ were granted the right to collect revenues in return for various services and considerations (e.g. to carry out trades to the exclusion of others in certain areas). The ‘tied’ public house (where the publican could only sells ale brewed by the brewery to which it was ‘tied’) is an example of franchising that existed in Britain since the 18th century. This has been ameliorated since the early 1990s because monopolies legislation has compelled breweries to sell off many ‘tied houses’ as it was viewed as a restrictive practice. Franchising has come a long way since its early origins. It has been taken from the UK to the USA, where it evolved and developed, and has been re-exported back to the UK in a more sophisticated form.

The modern American concept of the business format franchise has gathered strength in Britain since the early 1960s. It contains all the components of a fully developed business system. The franchiser’s brand name and business format are used for the exclusive purpose of marketing an agreed product or service from a ‘blueprint’, with the franchiser providing assistance in organisation, training, merchandising and management, in return for a ‘consideration’ from the franchisee. The ‘formula’ is very carefully prepared so as to minimise risk when opening the business. The basic principle that attracts new franchisees is that other people have followed the same scheme, and since they have been successful, new entrants should also be successful. The franchiser (normally a large business) supplies a franchisee with a business package or ‘format’, a trade name and specific products or services for sale to the general public. In most cases, the franchisee pays royalties and, in turn, is granted exclusive access to a defined geographical area.

There are no laws enacted solely for the purpose of regulating the growing business of franchising in India, even though many nations across the world have enacted such laws. The result is that when franchisors enter India they are governed by a number of different statutes and codes rather than a single comprehensive enactment.

NEED FOR A FRANCHISE LAW IN INDIA

A healthy legal environment is of great importance for franchising and should include provisions pertaining to all areas that fall within the ambit of franchising. This includes, inter alia, commercial law relating to contracts and joint ventures and intellectual property law for protection of trade marks and know-how. Franchise arrangements are subject to an array of laws and regulations in addition to those regulating commercial contracts and intellectual property rights. There are no specific laws governing franchising in India. As a
result a franchise agreement may be governed by different laws.

Primarily a franchise agreement is a contract between the franchisor and the franchisee. The first law which comes into the picture is the Contract Act 1872 which governs contracts in India. A franchise agreement will be governed by the Indian Contract Act, 1872 and the Specific Relief Act, 1963 which provides for both specific enforcement of covenants in a contract and remedies in the form of damages for breach of contract. If a party to the franchise agreement commits a breach of contract, the aggrieved party has the option to initiate a suit for specific performance in Indian courts and apply for relief in the form of a temporary or permanent injunction, which may be granted at the discretion of the court considering the balance of convenience and the interests of justice. An order granting or rejecting an injunction may be appealed by an aggrieved party.

Laws relating to taxation, property laws, insurance law and labor laws also apply to franchise transactions. Additionally, laws and regulations applying to specific sectors of goods and services will also apply depending on the franchised.

The following are the reasons why a comprehensive franchise law is required in India:

<table>
<thead>
<tr>
<th>Application of Multiple Legislation</th>
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<td>A well-defined legal structure is indispensable for the effective functioning of any business operation. The international business environment demands a well-defined suitable legislation that is complete in all respects. The lack of a comprehensive legislation on franchising in India leads to the applicability of multiple laws to a franchise transaction.</td>
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This poses the following problems:

Complexities: Parties to a contract normally prefer agreements with a simple approach and encompassing all the required law procedures and rules required to be complied with. However the application of different laws to one agreement makes it complex to decide various issues arising from the agreement.

Ambiguities: Due to the necessary application of multiple legislation, ambiguities are created as to certain issues. For example, a franchisor would imagine that a certain issue is the franchisee's responsibility under one law, whereas the franchisee would think the opposite based on a different law.

Time-Consuming: Referring to multiple laws consumes a lot of time at the initial stages of a transaction as well as other points of time when the agreement is sought to be enforced. This proves to be detrimental to the smooth functioning of franchising operations in India and also makes time-bound operations involving new enterprises difficult.

Absence of Disclosure Requirements

Countries with specific franchising legislation make it imperative for parties to a franchise agreement to disclose certain factual information pertaining to the business of the parties. This ensures transparency and facilitates an informed decision. A franchisor should be required, by law, to make certain disclosure to the prospective franchisee wherein he is supposed to reveal detailed information regarding himself, his litigation and bankruptcy history, his financial position, the facilities he offers etc. In India, in the absence of effective
disclosure norms, a prospective franchisee is rendered helpless as the franchisor is under no statutory obligations to make disclosures. In the absence of a specific statute governing the franchise agreement, the franchisor refrains from providing any information that is likely to prejudice or make a franchisee reconsider the business proposition of the franchisor. The lack of proper disclosure requirements provides a golden opportunity to a franchisor to abuse his position of importance as he is virtually under no statutory obligation to make the requisite disclosure.

**Applicability of Laws of other Countries**

Normally, the absence of franchise laws enables foreign franchisors to make the laws of their own country applicable to the agreements entered into with the franchisees in India. The same is the case with franchisors who enter into franchising agreements with franchisees from other countries. This proves to be an additional burden on the parties, particularly the franchisee.

**Lack of Proper Format for Franchising Agreements**

Due to lack of a specific format, franchisors from other countries draft agreements which are in the same format as is approved or followed in their countries. Such agreements are made to suit the specific environment of their respective countries and hence are not suitable for the Indian environment.

**Liability of Parties Uncertain**

Due to the lack of specific legislation, the liability of either party is either determined by the agreements entered into between them or on the basis of general prevailing law. The liability clause is different in different countries, and this leads to a great discrepancy among the courts which try such disputes on liabilities.

The Central Government is currently considering a franchise law aimed at fast resolution of disputes; the proposal is expected to be placed before a sub-committee of the National Development Council. The aforesaid problems surrounding franchising in India necessitate the enactment of a specific legislation pertaining to franchising in India and providing for the gamut of activities that franchising encompasses. A special franchise law would greatly accelerate dispute resolutions and fortify the Indian retail industry.

The Franchise Association of India is the country peak industry body and franchise advisory committed to strengthening and promoting the best practices in franchising. Franchise Association of India members are businesses and service providers united by their common concerns for the wellbeing of the franchise marketplace.

Franchising is a proven business model. Except other international counterparts, France is also keen to make a way into the market. Looking at the global slowdown, franchising is one industry which is going to be successful. Talking about the franchising market, Dharmendra Manwani, CEO, Jean-Claude Biguine opines, "India, which has a growing middle-class of over one billion people, is now positioned as a major force in the global economy and fertile ground for investment in luxury and lifestyle segments. The franchising industry in India is expected to grow at an annual rate of 30 per cent, and to drive the country's current $330 retail sector even higher." In 2007, more than 750 national and
international franchisors were operating in India, employing millions of people, and generating revenues in excess of $3 million. Commenting on the franchise system Fouchet opines, "As everywhere in the world, the success of a franchise depends on the professionalism, the work and the adaptation of both the franchisor and the franchisee or master-franchisee. If the Indian investor selects the right brand, with adapted products for India's consumers, and manufactured by a reliable company, he will succeed. And the success will be much quicker compared to an Indian company that will try to do everything on its own. This is mainly based on the fact that with a great franchise system you benefit from the brand experience in one day." Vajpayee elucidates, "Franchising is going to be a great success in the Indian market, but for luxury brands there are some initial hitches in the market in terms of viability of the franchisee."

Narula informs, "Without a doubt, franchising is going to be an important factor to grow organized retailing in India. With the current FDI regulations on organized retail, franchising would be a viable option for quite a few players. Apart from the legal perspective, franchising is a route that allows a brand owner to minimize his capital investments in the venture." Commenting further on taking the franchise route in the future, he says, "Currently, we are operating on a company owned outlet model. However, if we are able to identify partners who share a similar vision, we are open to looking at them for franchised stores."

These are some examples of Franchise operation:

**Bata Ventures Into Direct Marketing**
With an aim to provide branded footwear at the doorstep of consumers, footwear retailer Bata India, the 75-year old footwear chain, has announced the launch of its latest distribution channel — Bata Direct. The channel is expected to help the company spread its presence beyond the 400 cities it is present now through its retail outlets. The first branch has opened in Faridabad and recruitment of sales coordinators and consultants for the same has started.

**Women's wear Brand Madame Plans 100 stores By 2010**
Madame, the leading women's western wear brand, has set an ambitious target of running 100 stores across the country from the existing 51 by 2010. The company has around 23 franchise-owned stores and will continue to expand through franchisees besides opening company-owned format. The latest store is a franchise outlet at Saket, New Delhi. Bipin Jain, director, Madame said, "Exclusive retail presence ensures increased brand equity and opportunity to gauge customer response directly. Moreover, we want to provide an unvarying international experience of shopping to our customers across all stores."

**KidZee To Slot In A Newfangled Identity**
Mumbai-based Kidzee, the pre-school division of Zee Interactive Learning Systems, has unveiled a unique teaching philosophy and a new logo.

**Achieving Turnover Via Franchise Path**
Megamart, the value retail chain of Arvind Brands, will take the franchising route to reach its targeted turnover of Rs. 1,000 crores in the next two years. Currently endowed with 115 stores across the country, the firm plans to increase its footprint state-wise. Tier-II and tier-II towns will be taken up first. The initial plan is to saturate the southern states and then
move elsewhere, according to KE Venkatachalapathy, COO.

3. CHANNELS FOR INDUSTRIAL PRODUCTS

3.1 INTRODUCTION

In the industrial product industries, the market distribution channel tends to be shorter than in consumer products industries. This is true because there are vastly fewer consumers or users of industrial products than there are for most consumer products. Industrial users are also easily reached and will usually buy more costly products in much greater volume per purchase than consumers. In addition, government regulations and a high cost ratio between freight handling charges and product worth require greater control over the product and the use of fewer middlemen in product shipping, storage and delivery.

Most industrial products such as fertilizers, chemicals, steel, paper and medical supplies are consumed as they are used, over a period of time, in the course of the user's business. The purchaser of these products normally think of buying them not consumption but for use. Since all products that are used are not necessarily consumed but all products that are consumed are used.

Industrial products manufacturing and marketing companies need to develop a unique relationship between themselves and their channel members. In these industries, products are researched and produced for the specific needs of the markets they serve. In many of the industrial products industries, the users of the manufactured products are themselves producers or manufacturers. These users do not buy products from the marketing channel for personal consumption but rather for the operation of their businesses. Industries involved with the manufacturer and marketing of industrial products are also industries that are highly regulated by both state and federal government agencies.

It is recognised that the manufacturer of many consumer products also comes under state and federal regulations. The significant difference for the channel member is that regulatory compliance in the manufacture of consumer products is usually completed at the point of processing or packaging, whereas for industrial products, compliance follows each step in the marketing channel.

Making industrial products is a tough way to earn a living. Producers of everything from adhesives and chemicals to metals and specialty paper have had to cope with a decade of disruption in their sales channels whether they dealt with original-equipment manufacturers directly, through distributors, or both. Distributors and end customers have consolidated, undermining long-established sales strategies; large customers have adopted increasingly sophisticated approaches to buying; and new technologies have made the producers' pricing schemes more transparent to all.

Consider the plight of electrical-wire and -cable producers. In search of economies of scale, distributors of these products consolidated during the late 1990s. Utilities—which are the end users of electrical wire and cable—also merged rapidly. Meanwhile, metals and other inputs to wire and cable products began to be sold through on-line marketplaces, which made the producers' cost base transparent. The result was that long-standing customer and supplier relationships were upended and the bigger surviving customers and distributors could extract pricing concessions from producers.
An industrial distributor performs a variety of marketing channel functions, including selling, stocking, and delivering a full product assortment and financing. In many ways, industrial distributors are like wholesalers in consumer channels.

There are four structures in industrial markets. First direct channels are typical in industrial markets. For example manufacturer buys large quantities of raw materials, major equipment, processed materials and supplies directly from other manufacturers. Manufacturers that require suppliers to meet detailed technical specifications often prefer direct channels. The channel from producer to government buyers is also a direct channel. Since much government buying is done through bidding, a direct channel is attractive. Dell, for example, the top seller of desktop computers to federal, state and local government agencies, sells the computer through direct channels. See this figure:

**Channels for Industrial products**

- **DIRECT CHANNEL**
  - Producer
  - Industrial/Government buyer

- **INDUSTRIAL DISTRIBUTOR**
  - Producer
  - Industrial distributor
  - Industrial user

- **AGENT/BROKER CHANNEL**
  - Producer
  - Agents
  - Industrial user

- **AGENT/BROKER-INDUSTRIAL DISTRIBUTOR**
  - Producer
  - Agents
  - Industrial distributor
  - Industrial user

Companies selling standardized items of moderate or low value often rely on industrial distributors. In many ways, an industrial distributor is like a supermarket for organizations. Industrial distributors are wholesalers and channel members that buy and take title to products. Moreover, they usually keep inventories of their products and sell and service them. Often small manufacturers cannot afford to employ their own sales force. Instead, they rely on manufacturer's representative or selling agents to sell to either industrial distributors or users.

Today, through the traditional industrial distributor is facing many challenges. Manufacturers are getting bigger due to growth, mergers and consolidation. Through technology, manufacturers and customers have access to information that in the past only the distributors and going direct, often via the internet. The internet was enabled virtual distributors to emerge and forced traditional distributors to expand their business model. An example of how the internet has revolutionized industrial distribution is [http://www.pumpbiz.com](http://www.pumpbiz.com), which sells pumps for chemicals, wastewater, sumps, water and all other industrial process fluids. The internet has also led to the emergence of three other new forms of industrial distribution. Some companies serve as agents that link buyers and sellers and charge a fee. For example, Exepedia.com links business travellers to airlines,
hotels and car rental companies. A second form of marketplace has been developed by existing companies looking for a way to drop the intermediary form the supply chain. Retailers using the exchange estimate they have saved approximately 15 percent in their purchasing costs. Finally, a third type of it internet marketplace is a “private exchange”. Private exchange allows companies to automate their supply chains while sharing information only with select suppliers. Example is I-textile, which enables companies in the textile business to communicate over a secure online platforms to place orders, update information and standardize transactions.

4. CHANNELS FOR AGRICULTURAL PRODUCTS

4.1 INTRODUCTION

There are many ways we can use the different distribution channel for the distribution of the agriculture products. There are different distribution channels we can try however for the distribution of the agriculture product we must use the direct selling method which is very good for the distribution of the agriculture products.

The company should hire some sales person which can directly guide to the customers about the products they need to enhance their productivity and efficiency. Because most of the farmers do not have that much sufficient knowledge which is necessary for use of the agriculture product so it is better for you to select this distribution strategy for the sale of the agriculture goods.

We can only base our strategy on a single-channel and we can also use the multiple distribution channels which we think might work in the culture and environment where we want to sell our products. so this is the reason we can use the different approaches for the distribution of the company products which are related to the agriculture sector.

Agriculture is the science and practice of activities relating to production, processing, marketing, distribution, utilization, and trade of food, feed and fiber. This definition implies that agricultural development strategy must address not only farmers but also those in marketing, trade, processing, and agri-business. In this context, efficient marketing and rural credit systems assume added importance. Marketing system is the critical link between farm production sector on the one hand and nonfarm sector, industry, and urban economy on the other. Besides the physical and facilitating functions of transferring the goods from producers to consumers, the marketing system also performs the function of discovering the prices at different stages of marketing and transmitting the price signals in the marketing chain. The issues and concerns in marketing relate mainly to the performance (efficiency) of the marketing system, which depends on the structure and conduct of the market. An efficient marketing system helps in the optimization of resource use, output management, increase in farm incomes, widening of markets, growth of agro-based industry, addition to national income through value addition, and employment creation.

The rural credit system assumes importance because most Indian rural families have inadequate savings to finance farming and other economic activities. This, coupled with the lack of simultaneity between income and expenditure and lumpsiness of fixed capital investment, makes availability of timely credit at affordable rates of interest a prerequisite for improving rural livelihood and accelerating rural development.
Agriculture continues to be the mainstay of India's national economy. Its contribution to India's Gross Domestic Product (GDP) is about 30 per cent. Nearly two thirds of the population still depends on this sector directly or indirectly. Self-sufficiency in foodgrains has been the basic objective of India's policy on agriculture. Foodgrain production has increased from the level of 52 thousand tonnes in 1951-52 to 199 million tonnes in 1996-97. However, the food grain production declined to 193 million tonnes in 1997-98. The present population of the country is about 960 million and is likely to touch 1000 million by the turn of this century. To feed this level of population, India has to produce 208 million tonnes of food grains from the present level of 193 million tonnes which is, no doubt, a gigantic task. The vital role of fertilisers in increasing agricultural production is well recognised. Since, the land man ratio is declining due to increasing population, the additional food grain production has to come by increasing the productivity of land under cultivation. Adoption of modern agricultural practices is the only way for increasing agricultural productivity. This calls for application of inputs like chemical fertilisers, high yielding seeds and pesticides besides use of mechanical equipments like seed-cum-fertiliser drills, sprayers, pump sets etc. Chemical fertilisers are very costly, particularly the phosphatic and potassic ones which have been decontrolled w.e.f 25th August, 1992. Urea, of course, is relatively low priced due to grant of subsidy by GOI. However, unless balanced nutrients are applied, the productivity cannot be sustained.

As a consumer—

India with a population of 1.08 billion, growing at about 1.7 % per annum, (Source: Census Estimates) is a large and growing market for food products. Food products is the single largest component of private consumption expenditure, accounting for as much as 49% of the total. Further, the upward mobility of income classes and increasing need for convenience and hygiene will drive demand for (a) perishables and non food staples and (b) processed foods. However, the agro & food sector faces several challenges which hamper realization of potential. A long and fragmented supply chain is the single largest bottleneck facing the sector. This together with demand-related issues as well as regulatory distortions have cumulatively resulted in several inefficiencies.

4.2 AGRICULTURAL MARKETING

Agricultural marketing comprises all the operations, and the agencies conducting them, involved in the movement of farm-produced foods, raw materials and their derivatives, such as textiles, from the farms to the final consumers, and the effects of such operations on farmers, middlemen and consumers.

- Thomsen, 1951.

The term agricultural marketing is composed of two words - agriculture and marketing. Agriculture, in the broadest sense means activities aimed at the use of natural resources for human welfare, and marketing connotes a series of activities involved in moving the goods from the point of production to the point of consumption. Specification, the subject of agricultural marketing includes marketing functions, agencies, channels, efficiency and cost, price spread and market integration, producers surplus etc. The agricultural marketing system is a link between the farm and the non-farm sectors.
Agricultural marketing is specifically defined as the interaction of the producers, processors, distributors and customers. In other words, agricultural marketing deals with the transference agricultural good from producers to the consumers. It starts when a product introduces an idea of a product which emerges from the needs of the market and the customers. The marketing ends with the satisfaction of the customers and again the feedback is taken to improve the business operation. The concept of agricultural marketing is similar to the basic concept of marketing.

In India Agriculture was practiced formerly on a subsistence basis; the villages were self-sufficient, people exchanged their goods, and services within the village on a barter basis. With the development of means of transport and storage facilities, agriculture has become commercial in character, the farmer grows those crops that fetch a better price. Marketing of agricultural produce is considered as an integral part of agriculture, since an agriculturist is encouraged to make more investment and to increase production. Thus there is an increasing awareness that it is not enough to produce a crop or animal product; it must be marketed well.

Agricultural marketing involves in its simplest form the buying and selling of agricultural produce. This definition of agricultural marketing may be accepted in olden days, when the village economy was more or less self-sufficient, when the marketing of agricultural produce presented no difficulty, as the farmer sold his produce directly to the consumer on a cash or barter basis. But, in modern times, marketing of agricultural produce is different from that of olden days. In modern marketing, agricultural produce has to undergo a series of transfers or exchanges from one hand to another before it finally reaches the consumer.

The National Commission on Agriculture, defined agricultural marketing as a process which starts with a decision to produce a saleable farm commodity and it involves all aspects of market structure of system, both functional and institutional, based on technical and economic considerations and includes pre and post-harvest operations, assembling, grading, storage, transportation and distribution. The Indian council of Agricultural Research defined involvement of three important functions, namely (a) assembling (concentration) (b) preparation for consumption (processing) and (c) distribution.

Importance and Objectives of Agriculture Marketing

The farmer has realized the importance of adopting new techniques of production and is making efforts for more income and higher standards of living. As a consequence, the cropping pattern is no longer dictated by what he needs for his own personal consumption but what is responsive to the market in terms of prices received by him. While the trade is very organised the farmers are not Farmer is not conversant with the complexities of the marketing system which is becoming more and more complicated. The cultivator is handicapped by several disabilities as a seller. He sells his produce at an unfavourable place, time and price.

The objectives of an efficient marketing system are:
1. to enable the primary producers to get the best possible returns,
2. to provide facilities for lifting all produce, the farmers are willing, to sell at an incentive
3. to reduce the price difference between the primary producer and ultimate consumer, and
4. to make available all products of farm origin to consumers at reasonable price without
impairing on the quality of the produce.

<table>
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<th>Facilities Needed for Agricultural Marketing</th>
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<td>In order to have best advantage in marketing of his agricultural produce the farmer should enjoy basic facilities.</td>
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1. He should have proper facilities for storing his goods.
2. He should have holding capacity, in the sense, that he should be able to wait for times when he could get better prices for his produce and not dispose of his stocks immediately after the harvest when the prices are very low.
3. He should have adequate and cheap transport facilities which could enable him to take his surplus produce to the mandi rather than dispose it of in the village itself to the village money-lender-cum-merchant at low prices.

Food marketing channels include all the institutions and processes by which food moves from the producer to the end user. Perishable products, such as fresh produce, move through shorter channels, while more storable products, like frozen pizza, utilize longer distribution channels. The purpose of middlemen has been to smooth the flow of goods from manufacturers or growers who produce large quantities of a few items to consumers who desire to purchase small quantities of many items. However, as retail chains have grown larger and more concentrated, food processors have found it advantageous to negotiate with and distribute directly to large retail customers.

Over the last 25 years, food processors have provided innovative, easy-to-prepare foods with convenient packaging, because consumers desire product quality, variety, food safety and nutrition. In addition, fulfilling consumers' desires will necessitate closer coordination and communication between agricultural producers and food processors. Additional value related to food preparation that was provided in the home or restaurant is now contributed by processors, especially in niche products and specialty items. Successful processors in the future will add value through greater convenience, nutritional qualities and/or fresher taste. This section describes direct marketing, conventional marketing and niche marketing.

Direct Marketing

A technique that producers can use to seek to add value to their products is marketing to the end consumer through direct marketing channels. Direct marketing includes individual producer processing businesses, roadside stands, farmers' markets and community supported agriculture (CSA). For example, CSA involves a partnership agreement between growers and consumers to provide vegetables and fruits throughout the season, while sharing both the risks and rewards involved in production agriculture. Consequently, producers must know the potential customer base, their income level, household size, age, ethnic group and education level to estimate the demand for direct marketing.
Conventional Marketing

Conventional marketing for grain production consists of selling to grain elevators, terminal markets, feedlot operators and other livestock producers. The conventional method of marketing livestock generally is to deliver finished livestock to animal packers and processors. Traditionally, value-added activities occur in the final stages of the agricultural commodity-marketing channel. However, opportunities exist at the beginning of the chain. For example, the introduction of identity-preserved grains can provide value-adding opportunities. Opportunities come in many shapes and forms, and the window of opportunity can change quickly.

Producers today are looking for opportunities to add value to their products, but they are finding that those opportunities may not fit traditional molds. Value-added agriculture takes research, innovation and drive. In fact, when the value-added venture becomes operational, members are transformed from commodity producers into processors and marketers of finished, value-added food products.

Niche Marketing

Niche marketing is a successful part of creating a need for value-added products. Even so, producers must rely on market planning, not emotion or guesswork, when producing to fill a market niche. Products must be developed carefully by targeting a specific group of consumers and focusing markets to smaller targets.

Most of the Agricultural produce is indirect channels (different agents and retailers) because a lot of care is required and money is invested by different stakeholders, while transport, keeping in view of perishableness. The highest wastage is agricultural produce when compared to other non-agricultural produce. With agricultural produce again two different kinds, perishable and non-perishables (grains pulses etc.) the perishable agricultural produce is Fresh fruits and vegetables.

Direct marketing channels for Agricultural produce is apani mandi and rythu bazaars etc. in this, there is no middlemen are involved, direct grower/producer and consumer or customer inter pace. These innovations are taken place for the benefit of both farmer and consumer after amendments of APMC act.

Main Problems in Agricultural Marketing

Agricultural marketing in India is characterized by pervasive government intervention. The objectives and forms of intervention have, however, changed substantially over time. State intervention in agricultural marketing is by definition aimed at correcting perceived market failures. Several instruments of such state intervention in India have their origin in the experience of the Bengal Famine, where market failure occurred due to inadequate state intervention. In the current situation of agricultural surpluses, however, market failure is occurring due to excessive state intervention. Agricultural marketing has changed conspicuously during the last fifty years. The main reasons for this change are increased marketable surplus, increase in urbanization and income levels and consequent changes in the pattern of demand for marketing services, increase in
linkages with distant and overseas markets, and changes in the form and degree of government intervention. Some basic features of the system and associated problems are:

➢ The market size is already large and is continuously expanding. Farmers' market linkages (both backward and forward) have also increased manifold. But the marketing system has not kept pace.

➢ Private trade, which handles 80% of the marketed surplus, has not invested in marketing infrastructure due to the excessive regulatory framework and dominance of the unorganized sector.

➢ Increased demand for value-added services and geographic expansion of markets demands lengthening of the marketing channel but this is hampered by lack of rural infrastructure.

➢ Direct marketing by farmers to consumers remains negligible. In the 27,294 rural periodic markets, where small and marginal farmers come to the markets, 85% lack facilities for efficient trade.

➢ For facilitating trade at the primary market level, 7161 market yards/sub-yards have been constructed but they are ill equipped.

➢ Food processing industry has a high income multiplier effect and employment potential. But in India the value addition to food production is only 7%, mainly because of the multiplicity of food-related laws.

➢ Due to poor handling (cleaning, sorting, grading and packaging) at the farm gate or village level, about 7% of grains, 30% of fruits and vegetables and 10% of seed species are lost before reaching the market.

➢ An estimated Rs. 50,000 crore are lost annually in the marketing chain due to poorly developed marketing infrastructure and excessive controls.

➢ State Agricultural Produce Markets Regulation (APMR) legislation hampers contract farming initiatives, which otherwise can be highly successful.

➢ Farmers shifting to higher-value crops face increased risk of fluctuation in yield, price and income.

➢ While agricultural price policy and associated instruments have induced farmers to adopt new technology and thereby increase physical and economic access to food, they have reduced private sector initiative and created several other problems in the economy.