



Review Article on Channels of Distribution

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ABSTRACT

Channels of distribution defined as Route of distribution through which goods are transferred from place of manufacturing to place of consumption, Classification of Wholesalers, Various types of channels, involvement of middleman. Explanation of retailer and wholesaler, Advantages and Disadvantages of channels of Distribution, and diagrammatical presentation.

Keywords : Channels of Distribution, Wholesaler, Retailer

I. INTRODUCTION

Channels of Distribution

It is defined as Route of distribution through which goods are transferred from place of manufacturing to place of consumption.

Advantages of Distribution:

1. The goods are easily available at all the places.
2. The financial burden is very less due to channels of distribution.
3. The sale of good increase due to support of wholesaler and retailers.
4. The goods are available at similar prices throughout the area.
5. It gives more employment.
6. It allows distribution of goods in small quantity
7. The goods are available in remote areas also.
8. The cost of marketing is reduced by channels of distribution.

Distribution Channels are divided into two groups:

1. Direct Distribution/ Selling/ Market
2. Indirect Distribution/ Selling/ Market

1. Direct Distribution/ Selling/ Market:

It is a method in which no intermediates are required to transfer goods from manufacturing place to place of consumer.

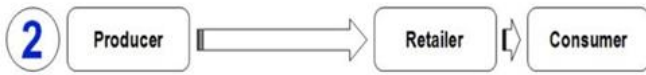
Manufacturer Consumer, e.g. OTC products, analgesics, antitussives, machinery

2. Indirect Distribution/ Selling/ Market:

Manufacturer transfer goods to consumer with help of wholesaler and retailer. Manufacturer Distributor Wholesaler

Consumer Retailer.

Manufacturer transfer goods to consumer with help of distributor, wholesaler and retailer



A. Functional Middlemen:

The Functional middlemen are those intermediaries who perform various marketing functions without having any title to goods i.e. they help in transfer of goods from the hands of the producer to those of consumers without acquiring any ownership rights.

The following middlemen come under this category:

1. Brokers:

- ✓ These agents bring buyers and seller together.
- ✓ They do not take ownership of goods.
- ✓ They are called as selling agent, when they are engaged with selling & buying agent when They are engaged in buying.
- ✓ Their role is over as soon as buyer & seller agree.
- ✓ He gets certain percentage of commission for business transaction done by him.

2. Commission Agent:

- ✓ They sell good on behalf of the seller.
- ✓ They take possession of goods & make arrangement for transfer of title of goods.
- ✓ He performs various functions of assembling, warehousing, grading and packaging of goods.
- ✓ He gets certain percentage of commission of business transaction done by him.

3. Auctioneers:

- ✓ In an auction, auctioneers collect goods from seller & display it for buyer and then he invites the bid from buyer.
- ✓ Buyer who makes highest bid will get the goods for auction.
- ✓ Auctioneer also get some percentage of commission of these business transactions.

4. Del Credere Agent:

- ✓ They find buyers for selling, and gives guarantee for payment of price of goods on behalf of Seller.
- ✓ He takes extra commission for these business transactions

B. Merchant Middlemen:

They work only for getting profit. They sell goods by taking from manufacturer & selling to Consumer.

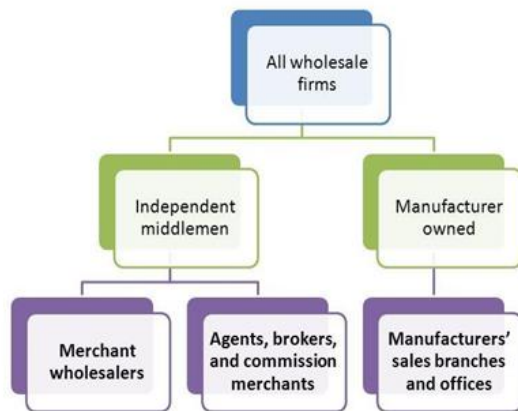
The following middlemen come under this category:

1. Wholesaler

- ✓ They are those merchants who act as intermediaries between the manufacturer and the retailer.
- ✓ They buy goods and commodities in large quantities from the producer and sell them to the retailers.
- ✓ The wholesaler dealing in pharmaceutical products requires a drug licence from the health department of the concerned state government.
- ✓ The wholesaler sells the products to the chemists and physicians.
- ✓ A wholesaler is called as stockiest if he deals in items manufactured by a single firm or company.

Classification of Wholesalers:

Three Major Types of Wholesalers



i. Manufacturer Wholesaler:

- ✓ These wholesalers are engaged in manufacturing activities to some extent.
- ✓ They may not only sell their own products to the retailers but may also make large-scale purchases from other manufacturers to meet the demand of the retailers.
- ✓ In this way, they reduce their overhead expenses by increasing their turnover.

ii. Retailer Wholesaler:

- ✓ These wholesalers purchase goods in bulk from manufacturers and sell them in retail to the consumers through their own shops.
- ✓ In this way they act as wholesaler as well as retailer.

iii. Wholesaler Proper:

- ✓ They concentrate solely on buying and selling of goods in large quantities and also known as distributors.

Functions of Wholesalers

1. Assembling: The wholesaler buys varieties of goods from diff. manufacturers and sells them in small quantities to the retailers.
2. Distribution: The wholesaler serves to distribute goods to the retailers who are generally widely scattered.

3. Warehousing: The goods purchased from different manufacturers or producers are kept in stock in warehouses till these are distributed to retailers. A wholesaler has enough stock of goods with him with a view to meet the requirements of retailers without delay.

4. Transportation: The wholesaler has to move the goods from the place of its production to his own warehouse. The wholesaler has his own vehicle for purpose of moving and distributing of goods.

5. Financing: The wholesaler provides credit facilities to the retailers and thus finances the retail Trade.

6. Risk-bearing: Bulk buying and storage of goods for a length of time carries a number of Risks, such as, changes in demand, spoilage or destruction of goods, loss due to theft in his Warehouse. These risks are born by the wholesaler.

7. Pricing: The price fixed by the wholesaler is generally the basis on which the retailer determines the price that he will charge from the customers.

8. Grading and Packaging: Some wholesalers are also perform the functions of grading of products according to their quantity and also pack the goods into smaller lots for retailers.

9. Market Research: The wholesaler is close to the retailers and from them he knows the needs of the customers. This helps in advising the producer to make goods in accordance with the demand and needs of the consumers.

Services Performed by Wholesalers:

The wholesaler renders invaluable services to retailers, Manufacturer and society or consumer.

1. Services to Retailers:

- ✓ The wholesaler purchases goods from various producers and stores them at one place for retailers.

- ✓ They help the retailers by supplying the goods to them promptly as compared to their getting the supply from the manufacturers.
- ✓ The wholesaler buys goods in large quantities from the manufacturers and sells them in small quantities to the retailers.
- ✓ The wholesaler help in stabilizing the prices by regulating the supply of goods and enable the retailers to earn a fair margin of profit.
- ✓ The wholesaler usually obtains substantial discounts and rebates from the producers and are Therefore in a position to give special discounts to the retailers on bulk purchases.
- ✓ They inform the retailers regarding new products introduced into the market.
- ✓ The wholesaler deals in a limited number of products and therefore gains expert knowledge in his field of speciality. The retailer can also be benefited from the specialization achieved by the wholesaler.
- ✓ They provide credit facilities to retailers.
- ✓ They bear most of the risks connected with marketing and thus save the retailers from such risks (e.g. goods may be damaged, destroyed or stolen).

2. Services to Manufacturers

- ✓ They buy goods in bulk from producers and relieve the producers of the botheration of Collecting orders and supplying goods to widely scattered retailers.
- ✓ The wholesaler trader helps in large scale production of goods by giving supply order for a Bulk quantity.
- ✓ They usually make cash payment for the goods purchased from producers. Thus the capital Invested by the producer does not remain blocked for long which in turn results in quick Turnover.
- ✓ The wholesaler trader maintains a sufficient stock of goods at all times during the year and

thus, in a way, provides warehousing facilities to both producer and retailers.

- ✓ They provide market information to the manufacturer so that they can regulate their production accordingly.
- ✓ The wholesaler helps the manufacturer in maintaining a uniform rate of production by placing advance supply orders.

3. Services to the Society (Consumers)

- ✓ The wholesalers sell the goods to the retailers at uniform prices which helps in bringing uniformity in price of retailers.
- ✓ Wholesaler purchase large quantity of goods from producers which help to cut down the cost of production. Therefore consumers are able to purchase the goods at reasonable price.
- ✓ Wholesalers informed about the taste of consumers to the producers with the result consumers are able to purchase goods of their liking.
- ✓ Wholesaler conduct market research from time to time. This help in the improvement in the existing product. Consumers get better quality products at reasonable price.
- ✓ Wholesalers helps in maintaining a balance in demand and supply and helps to stabilize the Prices.

Elimination of Wholesaler

There is common feeling that the services of wholesalers are unnecessary in present age. They should be eliminated because middlemen are parasites growing fat at the cost of producers and consumers. But on the other hand it is felt, in the absence of wholesalers, the producers, retailers and consumers may have to face a lot of problems.

It is desirable to study the views and arguments for and against the wholesalers in order to come to any conclusion.

Arguments for the Elimination of Wholesalers:

- ✓ The producer pays commission to the wholesaler which increases the retail price of goods. So the existence of wholesalers leads to increase in prices.
- ✓ The producer can sell their products to consumers through advertisement without the help of wholesalers.

Arguments for the Elimination of Wholesalers:

- ✓ Certain producers have started opening their own retail outlets at various places for direct selling to consumers at reasonable prices e.g. Dabur, Hamdard etc.
- ✓ Wholesalers are only interested in the sale of popular products. Therefore new products are not available with the wholesalers.
- ✓ Due to fast means of transport, the retailers can easily buy required quantity of goods from producers directly.
- ✓ Nowadays, the departmental stores and large scale retail shops are getting popularity in big cities. Such types of establishment make direct purchase from producers.
- ✓ Sometimes wholesalers create the scarcity in the market by hoarding the products. Due to shortage of supply, the prices get increased in the market. Thus wholesalers exploit the consumers by charging very high prices.
- ✓ Cooperative societies are increasing day by day. These societies earn less rate of profit and sell better quality goods at reasonable price by purchasing directly from producers.

Arguments Against Elimination of Wholesalers:

- ✓ Wholesalers provides various services to the retailers regarding marketing of goods which may not be possible for retailers to perform it.
- ✓ If wholesalers are eliminated, the retailers will not be able to purchase goods on credit. Similarly,

producers will not able to get advances from wholesalers. Hence both producers as well as retailers will have to face financial difficulties.

- ✓ Producers produce goods for future consumption, but it is not possible for them to estimate the demand in future. This information is supplied by wholesalers, because they have a well knit network of retailers.
- ✓ Wholesalers provides free shop delivery facility to the retailers which may not be possible in the absence of wholesalers.
- ✓ Wholesalers provide market information to the producer which may not be available to them in the absence of wholesaler
- ✓ Arguments against Elimination of Wholesalers:
- ✓ If wholesalers are eliminated, the more capital is required by producer in order to provide Credit facilities to the retailers.
- ✓ In the absence of wholesalers, the retailer would purchase goods in small quantity from Producers. This will lead to increase in expenses on packing and transport etc.

Although a wholesaler has become a subject of serve criticism yet keeping in the view the Important services rendered by him, it is not desirable to eliminate the wholesaler. They are an important link between the manufacturers and consumers.

4. Retailer

Is a merchant middleman who is a link between wholesaler and consumer, he buys goods in small quantities from wholesaler and sell them to customers.

Functions of Retailer:

1. Wide Choice to Customer: They keeps stock of various items according to need of customer. Retailer brings different kinds of goods which are frequently demanded by customer.
2. Ready Stock: Retailer provides various stock of variety of goods at one place.

3. **Transportation:** Retailer usually makes their own arrangement for transportation of product of different variety from different wholesaler.
4. **Grading:** Normally grading is done by wholesaler & producer but retailer has to do grading of goods which is left by manufacturer and wholesaler.
5. **Risk Bearing:** Retailer bears number of risks of loss of goods by fire, theft, deterioration as long as they are not sold.
6. **Financing:** Retailer provides financial facilities to customer by selling their product on credit basis.
7. **Market Research:** Retailers are in close contact with consumer, they know the demand of consumer likes, dislikes and taste of consumer. This information is provide to wholesaler and passed to producer by wholesaler.
8. **Sales Promotion:** Retailer display goods in window and counter for getting information to consumer. Thus retailer increases sales of goods and creating a demand in mind of customer

- ✓ They sell goods which is required in day to day life. Thus, retailer of this type is called 'Feriwala'.
- ✓ They do not have fixed place or premises to sell their goods to consumer.

A) Hawkers & Pedlars

- ✓ They sell goods & articles which are required daily
- ✓ They sells goods from door to door in residential area by carrying on head/ carrying bags.
- ✓ They purchase these goods on credit basis & pay off amount of goods on next day.

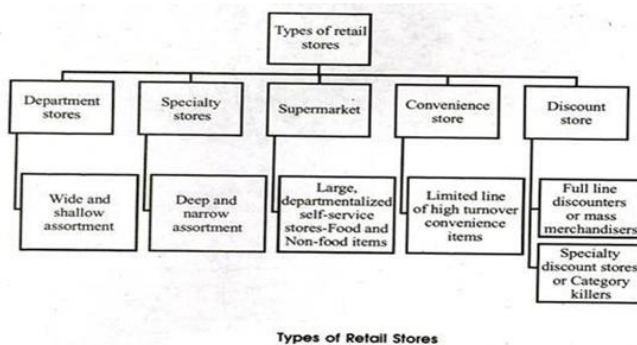
B) Street Traders:

- ✓ These traders sell their goods at busy places of railway station, bus stop, cinema hall etc.
- ✓ They setup their shop for temporary period of time & selling at very low price.

C) Market Traders:

- ✓ These traders keep on moving from one place to another to sell their products at different Places at weekly/ monthly bazaar or annual fair.

Types of Retailer:



Types of Retail Stores

II. Itinerant Retailer

These are retailer moving from one place to another to sell goods to the consumer.

Features:

- ✓ They generally invest very small capital.
- ✓ They sell goods in small lots.
- ✓ They sell their goods to consumer as very low price

III. Fixed Shop Retailer

- ✓ These retailer performs business activity or selling on fixed shop or place.
- ✓ They do permanent establishment to sell their goods.
- ✓ They do not go from place to place, infact customer visits their shops. They are classified into following types:

A) Small Scale Retail Shop

B) Large Scale Retail Shop

A) Small Scale Retail Shop:

a) Street Stall:

- ✓ These are located at street crossing or Main

Street

- ✓ They use table/ platforms to arrange their goods for selling
- ✓ They sell inexpensive articles like toys, ball pens, fountain pens etc.

b) Second Hand Goods Shop:

- ✓ They deal only in second hand or used goods
- ✓ e.g. furniture, books, accessories etc.

c) General Stores:

- ✓ They are setup in residential area.
- ✓ They stock all kinds of products required in day to day life
- ✓ e.g. toothpaste, OTC drugs, soaps etc.

d) Single Line Store:

- ✓ They are specialized in selling only particular kind of items
- ✓ e.g. Medical stores deal only in medicines.
- ✓ Located in residential and central market place.

e) Specialty Store:

- ✓ These retail agencies are specialized from single line store.
- ✓ They specialize not in product of particular line but product of certain line.
- ✓ e.g. children garments, men garments etc

B) Large Scale Retail Shop:

a) Departmental Stores:

- ✓ Departmental store is a large scale retail shop having number of departments dealing in Separate line of product.
- ✓ It works under one roof and one management
- ✓ It deals in wide range of product
- ✓ The main objectives of departmental are to satisfy customer need at one place.

Advantages:

- a. **Location:** It is located at center place of city. Thus, it is accessible to consumer.
- b. **Types of product:** They provide large variety of products in single store.
- c. **Time and Efforts:** They save time and efforts of consumer as they do not require to move from one place to another for shopping various goods.
- d. **Services and Facilities:** They provide number of services and facilities to customer like home delivery, credit facilities. Thus, it attracts large number of customers.
- e. **Advertisement Expenditure:** Lot of amount is spent on advertisement through various media, window display, T.V., Radio, Magazines etc.
- f. **Profit:** As it is a large scale business, it gets more profit.
- g. **Reduction of cost:** Due to huge sell in departmental store, the selling cost per unit becomes very low.

Disadvantages:

- i. **Cost of Facilities:** It provides number of services to customer but their cost of facilities is indirectly taken by customers only.
- ii. **Large Expenses:** More expenses are done on advertisement, interior designing, window display, maintenance etc.
- iii. **Location:** It is located in center place of city which creates a problem of traffic and parking. Not suitable for customer living in remote area.
- iv. **Capital:** Huge capital is used to start a departmental store. So, running & operating cost is also very high.

b) Multiple Shop/ Chain Shop:

Multiple shop is a group of shop in same branch of retail trade operating under centralised management and dealing in similar line of product.

Features:

- ✓ Single business firms open number of shops in different parts of country/ city.

- ✓ Uniform style/ design for easy identification to the customer.
- ✓ They have uniform price for product throughout all branches of multiple shop.
- ✓ They provide similar line of product.
- ✓ All the branches are centrally controlled.
- ✓ They provide shopping facilities near residency
- ✓ Head office passes decisions to all branches e.g. Bata, Raymond, Metro

Advantages:

- i. **Bulk Buying:** All stocks are purchased by central office. Thus, cost of product is reduced.
- ii. **Location:** Majority of branches are located in important locality.
- iii. **Fixed price and quality:** All the branches sell their product at fixed price and are of good quality, helps in winning confidence of customer.
- iv. **Shortage:** Shortage at one branch can be met by other branch.
- v. Uniformity in operation and decoration helps in easy identification of brand.
- vi. As there is no middlemen, there is direct contact between customer and shop.
- vii. No loss due to bad debts
- viii. Control and supervision is easy by head office

Disadvantages:

- i. **No wide choice:** It cannot offer a wide variety of product to consumer as range is limited.
- ii. **No head office control:** The head office or central office is located away from branches so there is less control on all branches
- iii. **No provision for customer:** There is lack of free home delivery services and credit facilities to consumer.
- iv. No personal contact between manufacturer and employee thus, employee does not get motivation to

increase sale of goods of shop.

- v. No freedom to staff.

c) Mail order business/Selling through post/Shopping by post:

It is a large scale retail shop carrying on business through mail(post).

Features:

- ✓ Goods are sold without contact between buyer and seller.
- ✓ Goods are not examined by consumer.
- ✓ Do not require to visit for product to shop.
- ✓ Consumer gets home delivery of goods.
- ✓ It saves the effort of consumer as they do not require to move from one place to another for purchasing goods
- ✓ Seller does not require shop to sell goods.
- ✓ Less investment is requirement.
- ✓ They have to pay very less expenses on maintenance.

Advantages:

- ✓ Customer get goods at home as they do not require to move from one place to other.
- ✓ Do not require shops or showroom; no maintenance cost is required.
- ✓ Running expenses are very low as it does not require large number of employees.
- ✓ Less finance or capital is required to start this business.
- ✓ Risk is very less and as the price of goods as paid in advance or at time of delivery.
- ✓ It is useful for customers who live in remote area

Disadvantages:

- ✓ Buyer can not examine goods before purchasing it.
- ✓ No direct contact between buyer and seller.
- ✓ More expenses are done on repacking, transport and advertisement which in turn increase Overhead expenses.

- ✓ Credit facilities are not given to consumer.
- ✓ Risk of damage of goods during transportation
- ✓ Limited variety of goods is available in this business.
- ✓ Illiterate consumers cannot take benefit of mail order business

Types of Mail order business:

- a. Manufacturer mail order business
 - b. Departmental mail order business
 - c. Middle men mail order business
 - d. Manufacturer mail order business: It is established by manufacturer for their own goods and sells it directly to consumer.
 - e. **Departmental mail order business:** It is a department present in departmental stores which receives mail order coming from outsider and fulfill this requirement by post.
 - f. **Middle men mail order business:** It purchase goods required from wholesaler and dispatch the same to customer.
- d) Super Market:**
It is a large scale retail enterprise which sells mainly food and other variety of goods on basis of low margin.

Advantages:

- ✓ Large scale enterprise thus it enjoys more profit of large scale buying and selling of goods.
- ✓ It sells goods at cheapest price, so attracts large customer.
- ✓ It gives more attention to repacking of product, since there is no salesman to convince customer.
- ✓ It provides self-service to customer.
- ✓ Less expenses are done on salary of employees
- ✓ They sell variety of goods at one place, at cheapest price, therefore it saves time and efforts of customers.
- ✓ They sell goods only on cash basis. Thus, there is no chance for bad debts.

Disadvantages:

- ✓ Attention is not given to customer by salesman because it provides self-service to customer.
- ✓ Customer handles goods carelessly and misuse opportunity of self service. These causes Destruction of goods in market.
- ✓ More expenses are done on repacking and advertisement
- ✓ They do not provide credit facilities to customer.
- ✓ Large capital is required to start a business.

e) Hire Purchase Trading House:

It is a retail enterprise which gives goods on highest basis (installment basis to customer).

Features:

- ✓ Buyer gets immediate possession of goods without paying full price of goods.
- ✓ It mainly deals in selling the luxurious items.
- ✓ Giving goods to customer on installment basis which may monthly, quarterly or yearly.
- ✓ It requires agreement between buyer and seller.

Advantages:

- ✓ Customer can buy luxurious items without paying full amount of goods
- ✓ Buyer gets possession of goods without paying full amount.
- ✓ Buyer gets the ownership with completion of installment.
- ✓ Manufacturer increases sale of goods which are luxurious and costly.
- ✓ It increases sale of goods which are not afforded by middle class people or customer.
- ✓ Manufacturer gets interest on product . Thus, he gets more profit on this business.
- ✓ Manufacturer has a right to take back goods if buyer makes a default in paying the Installment.

Disadvantages:

- ✓ It requires large investment to start this business.

- ✓ Customer has to pay more amount for luxurious items.
- ✓ It creates a need in mind of customers which are not directly required daily to middle class Customer.
- ✓ If the customer has not paid any installment; manufacturer can take back goods from Customer.
- ✓ They have to do more expenses on advertisement of items and he gets money after some Period of time.

f) Consumer Co-operative stores:

- ✓ It is a retail enterprise which is formed by association of consumer. It is a voluntary Association of consumer for helping consumer only.

Features:

- ✓ The main objective is to provide service to customer and not maximize profit.
- ✓ Consumer perform society and runs a retail business.
- ✓ Capital is collected by members of society through purchase of shares.
- ✓ Members purchase product from wholesalers at wholesale rate and sell to the consumer at less price than market price.
- ✓ Profit is given as a bonus or dividend on their shares to customer.
- ✓ No good management is there because stores are handled by consumers only.
- ✓ Liability of member is limited.

Advantages:

- ✓ Formation: It is easily formed because it is a voluntary association which attracts large number of customer
- ✓ Liability of members are very limited.
- ✓ Customer gets goods of good quality at cheaper price than market price.
- ✓ They remove middlemen margin and distribution cost.
- ✓ Less expenses are done on advertisement and decoration of stores. So overhead expenses is reduced.

Disadvantages:

- ✓ It is formed by consumer. Thus, they do not have more experience to run a business.
- ✓ Management is also not proper by members of business.
- ✓ Easy dissolution is not possible due to regulations and rules.

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