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# 4

## **DISTRIBUTION**

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### **UNIT 11**

#### **Channels of Distribution I**

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### **UNIT 12**

#### **Channels of Distribution II**

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### **UNIT 13**

#### **Physical Distribution**

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# UNIT 11 CHANNELS OF DISTRIBUTION-I

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## Structure

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## 11.0 OBJECTIVES

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After studying this unit, you should be able to:

- explain the meaning and role of distribution channels in overall marketing of products;
- describe the common distribution channels used;
- outline the factors influencing the choice of a distribution channel; and
- explain the strategies relating to the intensity of distribution.

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## 11.1 INTRODUCTION

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You have already studied about the two important elements of marketing mix, viz., product and pricing. You would, however, appreciate that merely producing a good product which has the desired attributes and is beautifully packed, branded and reasonably priced, does not ensure success in the market. It is equally important that the product is made available at a place where the customer would like to buy it. In other words, the product should be available at the right time and at the right place. In order to ensure this, each firm has to take certain strategic decisions for the systematic distribution of its products. One such decision is regarding channels of distribution. The present unit discusses this aspect. In this unit, you will study the meaning, role and functions of a channel of distribution, factors influencing the choice of a distribution channel and the strategies relating to the intensity of distribution.

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## 11.2 WHAT IS A CHANNEL OF DISTRIBUTION ?

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The distribution system is concerned with the movement of goods from the point of production to the point of consumption which involves a variety of functions. The main participant in the distribution system are: (1) the manufacturers, (2) the intermediaries, (3) the facilitating agencies, and (4) the consumers. Manufacturers produce the goods. This is the starting point in the distribution system. The second category of participants i.e., intermediaries, are involved in direct negotiation between buyers and sellers whether or not they take title to goods. These intermediaries locate the manufacturers who produce various products, identify the needs of the consumers and distribute the goods. In the process, they perform various functions like buying, selling, assembling, standardisation and grading, packing and packaging risk bearing, etc. Facilitating agencies are the independent business organisations other than intermediaries. These agencies facilitate the smooth distribution of goods from producers, through intermediaries, to consumers. The major facilitating agencies are banking institutions, insurance companies, transportation agencies and warehousing companies. The fourth category of participants in the distribution system i.e., consumers, are the final destination for goods in the distribution system.

A Channel of distribution is mainly concerned with second participant i.e., the intermediaries. The term '**Channel of Distribution**' refers to the route taken by goods as they flow from the producer to the consumer. This flow of goods may mean its physical distribution and/or the transfer of title (ownership). Channels of distribution are mainly concerned with the transfer of title to a product which may be effected directly or through a chain of intermediaries. You know most producers do not sell goods directly to the consumers. They make use of a variety of intermediaries known as middlemen. These middlemen who take title to goods or assist in transferring the title to goods as they move from the producer to the consumer is called the channel of distribution. Thus, **the channel of distribution is a network of institutions that perform a variety of interrelated and coordinated functions in the movement of goods from producers to consumers.**

**A distribution channel creates place, time, form and possession utilities to the products by prompt and efficient performance of the function of physical distribution.** In modern societies the production of goods takes place on a large scale in factories concentrated in few localities while the consumers are scattered throughout the country. For instance, textile mills are concentrated at few places like Bombay, Ahmedabad, Coimbatore, etc., while the cloth is used by all the people in the country. Similarly, Maruti cars are manufactured at Delhi while the users are spread in all parts of the country. Something is true of agricultural commodities. Apples are produced mainly in Kashmir Valley and Himachal Pradesh whereas they are consumed by people throughout the country. Another such example is tea which is mainly produced in Assam while it is consumed everywhere in the country. Thus,

most of the goods are produced at one place while they are consumed at various other places and therefore it is difficult for the consumers to contact the producers directly. Similarly it is not possible for all the producers to contact the consumers directly and sell the goods. Hence, it is essential to move the goods from the place of production to the markets where consumers can buy them. Otherwise, production has no value and it becomes waste. **A distribution channel helps in the movement of goods from producer to consumer and, thus, creates place utility to the product.**

There is another barrier which arises due to time lag between production and consumption. The goods produced are not consumed at the same point of time. Some goods are produced throughout the year, but their consumption is seasonal. For example, umbrellas and raincoats are used only during rainy season, woollen garments are used only during winter season. In some other cases, goods are produced during specific season while they are consumed continuously throughout the year. For example, food grains are produced by farmers during a particular season but are consumed throughout the year. Thus, in many cases, there is a time lag between production and consumption. **The distribution channel makes it possible for the consumers to get the product whenever they want them and, thus, creates time utility to the products.**

Similarly, a distribution channel makes it possible for the consumer to get the products in a convenient shape, unit size, style and package. Thus, **it creates convenience value.** Distribution channel also makes it possible for the consumer to obtain good at a price he is willing to pay and under conditions which bring him satisfaction and pride of ownership. Thus, **it creates possession utility.** Thus, it is the distribution system which moves the goods from the place of production and makes them available to the consumers at the right place, time and form.

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### **11.3 FUNCTIONS OF CHANNELS OF DISTRIBUTION**

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The functions performed by distribution channels may be grouped into three categories as follows:

- 1) Transactional Functions
- 2) Logistical Functions
- 3) Facilitating Functions

1) **Transactional Functions:** Functions necessary to a transaction of the goods are called **transactional functions.** Buying, selling and risk bearing functions come under this category. Participants in the channel of distribution undertake these three functions. Producers sell the goods and intermediaries buy them. Later intermediaries sell the goods and consumers buy them. Because of this buying and selling by the channel participants, title to goods changes hands and goods flow from producer

to consumer. If there is no willingness for buying and selling, there would be no transaction. When goods are bought, it involves risk also. For instance, an intermediary bought goods from the producer with the intention of selling at a profit. But he may incur loss due to fall in price. All the participants in the distribution channel assume such risk of loss.

- 2) **Logistical Functions:** The functions involved in the physical exchange of goods are called **logistical functions**. Distribution channel performs some functions like assembling, storage, grading and transportation which are essential for physical exchange of goods.

Goods are assembled in sufficient quantity to constitute an efficient selling and shipping quantity. Sometimes, it is also necessary to assemble a variety of goods to provide an assortment of items desired by buyers. Grading and packing of goods facilitate handling and sale of goods promptly. Proper storage of goods prevents loss or damage as well as helps regular supply of goods to consumers whenever they want. Transportation makes goods available at places where buyers are located. In the channel of distribution all these functions are performed so that goods may reach market place at proper time and may be conveniently sold to the ultimate consumers.

- 3) **Facilitating Functions:** These functions facilitate both the transaction as well as physical exchange of goods. These facilitating functions of the channel include: post-purchase service and maintenance, financing, market information, etc. Sellers provide necessary information to buyers in addition to after sales services and financial assistance in the form of sale on credit. Similarly, traders are often guided by producers to help them in selling goods, while the traders also inform producers about the customers' opinions about the products.

Thus a Channel of distribution performs a variety of functions such as buying, selling, risk bearing, assembling, storage, grading, transportation, post-purchase service and maintenance, financing, market information, etc. But the relative importance of storage is more important for perishable goods and bulky material such as coal, petroleum products, iron, etc. In the case of automobiles and sophisticated electronic goods like computers, after sales service is very important.

### Check Your Progress A

- 1) What is a channel of distribution?
- 2) State whether the following statements are **True** or **False**.
  - i) Only buying and selling activities are carried on by a distribution channel.
  - ii) Transportation is the primary function of a distribution channel.
  - iii) Risk bearing is one of the functions of a distribution channel.
  - iv) In a distribution channel facilitating agencies take title to goods.
  - v) Channels of distribution create convenience value to the goods.

## 11.4 CHANNELS OF DISTRIBUTION USED

You have learnt about the nature and functions of channels of distribution. We shall now discuss the channels of distribution commonly used by the producers. By and large, channels of distribution used by marketer are as below:

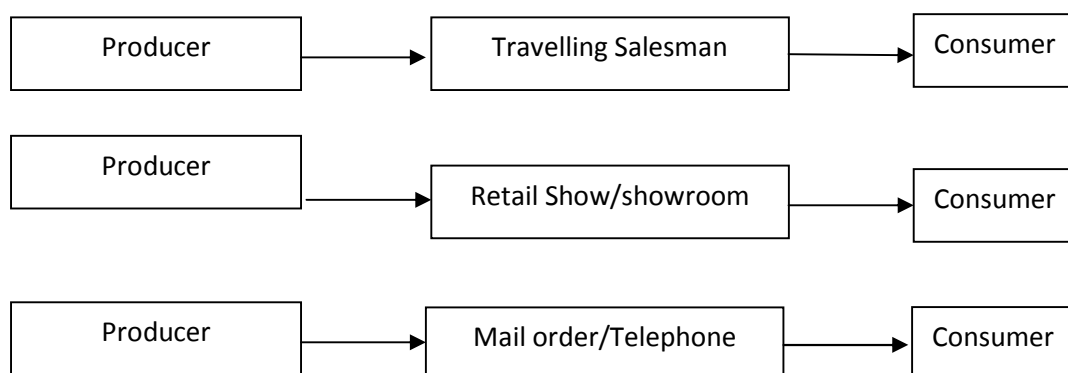
- 1) Direct channel of distribution, (2) Indirect channel of distribution, (3) Multichannel distribution, (4) Digital marketing channel.

### 1) Direct Channels

When the producers sell their goods directly to the consumers, it is called a direct channel. No middleman is present between the producer and the consumer.

For direct selling, the first option involves supplying the product to the customer using your own salesmen and arranging your own deliveries. The second option is using the medium of post office. You obtain orders from your customers who respond by mail or telephone to your advertisements or to letters mailed directly to their houses. You deliver your products to them through mail or through some other carrier. The next alternative is to establish your own Retail Stores. Bata Ltd., for example, has established its own retail stores throughout the country. This practice has also been adopted on a smaller scale by a number of textile mills which have their own retail shops like Calico Mills, Raymonds, etc. DCM has franchised a number of retailers to sell their products to the consumers.

Direct channel is also called **zero-level channel** as there is no middleman between producer and consumer. The three major ways of direct selling are shown in Figure 11.1.



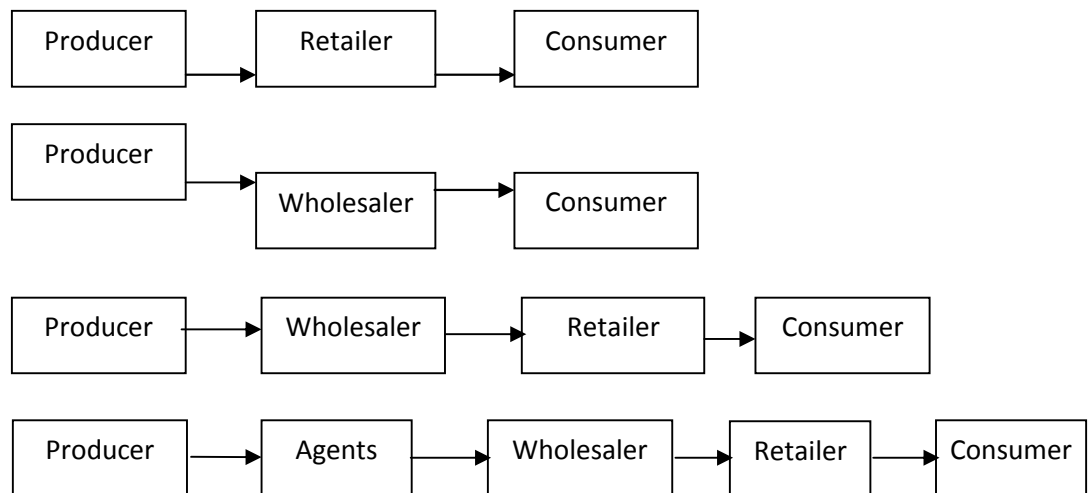
**Figure 11.1: Direct Channels of Distribution**

An example of direct selling is provided by Eureka Forbes Ltd.(EFL), a Bombay based company which markets vacuum cleaners and water purifying equipment. It believes that if the market is in the customer's house, the best way to get there is to knock at the door. The company has clearly demonstrated that door-to-door selling can be effective in Indian conditions. Its large number of sales force and reach over large number of cities and

towns make it the Asia's one of the largest commercial direct sales organisation. They took the cue from Electrolux, the world's leading manufacturer of vacuum cleaners, and a firm believer in door-to-door selling.

## 2) Indirect Channels

In the case of other products, it is not possible for the manufacturer to supply goods directly to the consumers. So middlemen like wholesaler, retailer and mercantile agents may be engaged in the channel of distribution. **When the middlemen are engaged in the distribution channel, it is called an indirect channel.** As shown in Figure 11.2 there could be four indirect channels.



**Figure 11.2 : Indirect Channels of Distribution**

The manufacturer may supply goods directly to retail traders. In this case, the producer ascertains the requirements of retailers at periodical intervals and goods are supplied accordingly. As and when required, the retailer may also procure goods from the producer's godown located in that region. In the same way, the producer can supply goods to the consumers by using the services of the wholesale trader. Since there is only one middlemen, (either retailer or wholesaler) in these two channels, this is referred to as **one level channel**. Alternatively, the producer can use the services of the wholesaler as well as the retailer. In this case the manufacturer may supply his products in bulk to wholesalers. The retailer may buy periodically from the wholesaler and sell the same to the consumers located in his locality. As there are two middlemen (both wholesaler and retailer) in this channel, it is referred to as **two level channel**. Another alternative channel of distribution consists of mercantile agent, wholesaler and retailer. In this case, the manufacturer deals with a mercantile agent. Then the wholesalers buy the goods from the agents and sell the same to retailers. In turn the retailer sells it to the ultimate consumers. This type of channel is referred to as **three level channel** as there are three types of middlemen involved in the distribution.

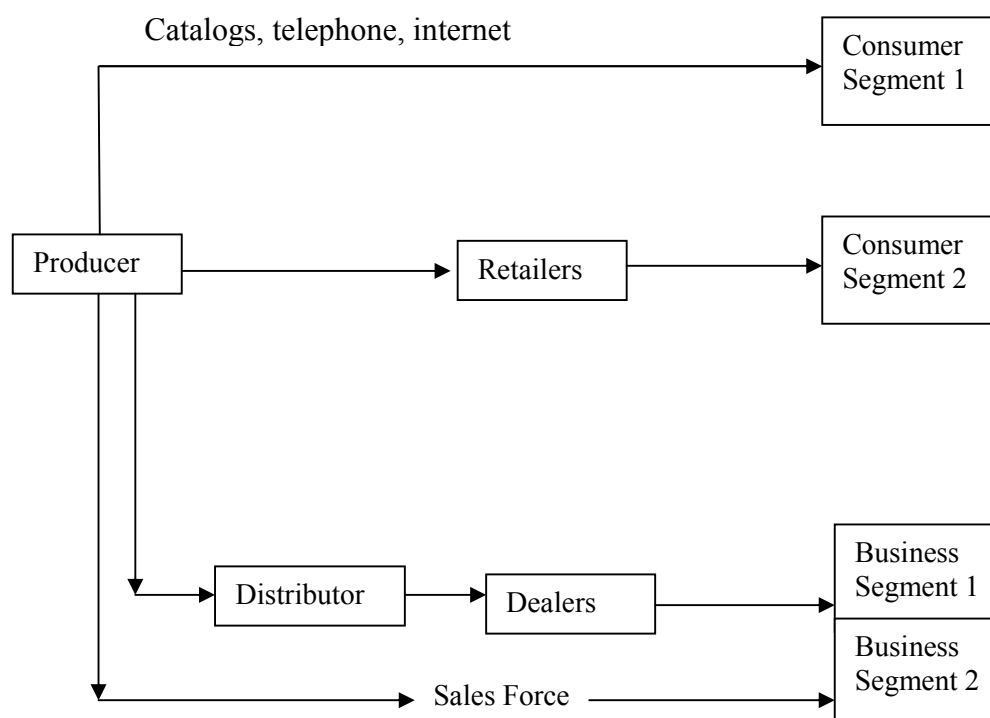


### 3) Multichannel Distribution System

As you know, manufacturers/producers may choose different channels to distribute their products/services to the customers. They can distribute their products/services directly or also indirectly. Today, as the companies have to deal with diverse customer segments, these companies are adopting ‘multichannel distribution system’ which is also known as ‘**hybrid marketing channel**’.

In the words of Philip Kotler, “A distribution system in which a single firm sets up two or more marketing channels to reach one or more customer segments.”

Thus, a multichannel distribution system is when the producers distributes their products/services to customers via multiple channels, such as directly through their own retail shops, salesman or an online market place or website and also through agents, wholesalers and retailers.



**Figure 11.3: Multichannel Distribution System**

**Source:** Kotler, P. et. Al. (2017) Principles of marketing An Asian Perspective (Fourth Edition), Pearson Education Limited, pg 383.

Figure 11.3 shows a multichannel distribution system. The manufacturer/producer has adopted four different channels to distribute its products/services. For selling products to consumer segment 1, he uses catalogs, telephone and internet. The products are distributed through retailers to consumer segment 2. The distribution to Business segment 1 is done through distributors and dealers, and to Business segment 2 through its own sales force.

#### 4) Digital Marketing Channels

With the advent of technology, there is an explosive growth of digital marketing channels which allows the producers or manufacturers and even the resellers to offer their products/services to the customers via websites, mobile applications and social media.

A company can sell its product directly through its own website to the ultimate consumers removing the intermediaries from their marketing channel or it can also refer its customers to their resellers website.

Hotels and travel tickets booking through Trivago.in, downloading music online from apple iTunes, selling and purchasing product from Amazon.com or Flipkart are all examples of digital marketing channel.

As consumers are becoming more familiar with the use of technology, this new form of marketing channel is slowly cutting the traditional brick-and-mortar form of distribution channel.

You have understood that there are number of channels of distribution prevalent. From the producer's point of view, more the number of middlemen used, lesser is the control he can have over the distribution. Let us now examine how these channels of distribution vary from one type of product to another. Basically we can classify the goods into two categories: 1) consumer goods, and 2) industrial goods. Let us now discuss briefly about the channels of distribution used for these two categories of products.

##### 11.4.1 Channels of Distribution Used for Consumer Goods

You know, the goods which are consumed by the household consumers are called **consumer goods**. Under this category, you can find a very wide range of items such as food items, stationery, cars, clothing, Shoes, household electrical appliances, TV sets, mobile phones, etc. The channel of distribution used for different products is not the same. Channels are different from one type of product to the other. Look at Figure 11.4 carefully. It gives the idea about the channels of distribution for some of the consumer goods.

As shown in the figure, consumers sometimes go directly to the factory and buy the goods or order the goods from the catalogue. Durable consumer goods like cars, clothing, furniture, textbooks, shoes, etc., are generally distributed through retailers. In many cases, showrooms are established by the manufacturer himself which undertake the retail trade. For example, Bata Shoe Company sells shoes through its showrooms. Consumer goods like auto spare parts, stereos, video recorder, etc., are distributed through wholesalers and retailers. Consumer goods of daily need like food grains, sugar, salt, edible oil, soap, paper, pencils, etc., are generally distributed through agent or broker, wholesaler and retailer.

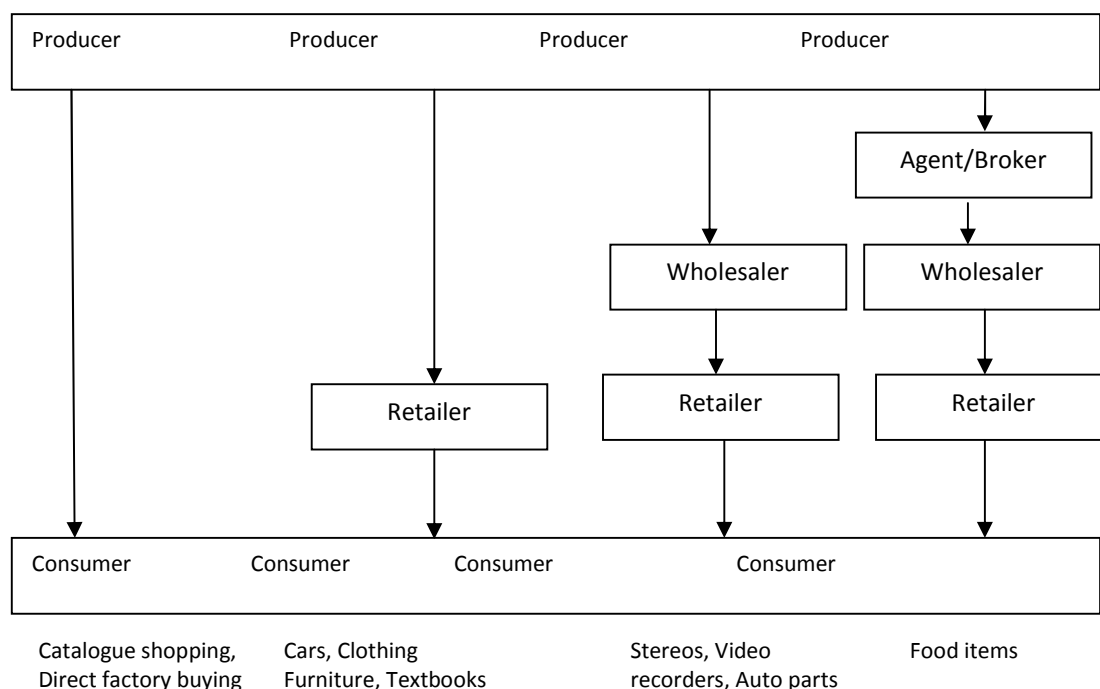


Figure 11.4 : Channel of Distribution for Consumer Goods

### 11.4.2 Channels of Distribution Used for Industrial Goods

As you know, the goods which are consumed for further production of goods are called **industrial goods**. Under this category, there are variety of products such as machinery, equipment, industrial raw materials (e.g., sugarcane, cotton, coffee, oilseeds, iron ore etc.), electrical and electronic components, etc. The channels of distribution are not similar for all the products under this category. Look at Figure 11.5 carefully. It presents the major channels of distribution for some of the industrial goods.

High value industrial goods like mainframe computers, aircraft, heavy machinery, etc. are supplied directly to the buyers. In these cases manufacturers procure orders by email on the basis of catalogues and price lists. Sometimes salesmen are also used to contact the buyers. Relatively less expensive items like trucks, conveyor systems, etc., are supplied through distributors. You know industries consume many agricultural products. For instance, tea leaves are processed to prepare tea powder which we use for preparing tea. Agricultural products like corn, coffee, soyabeans, etc., are procured by the industrial buyers through agent middlemen. When electrical components are imported from foreign markets, they are procured through an agent and industrial distributor.

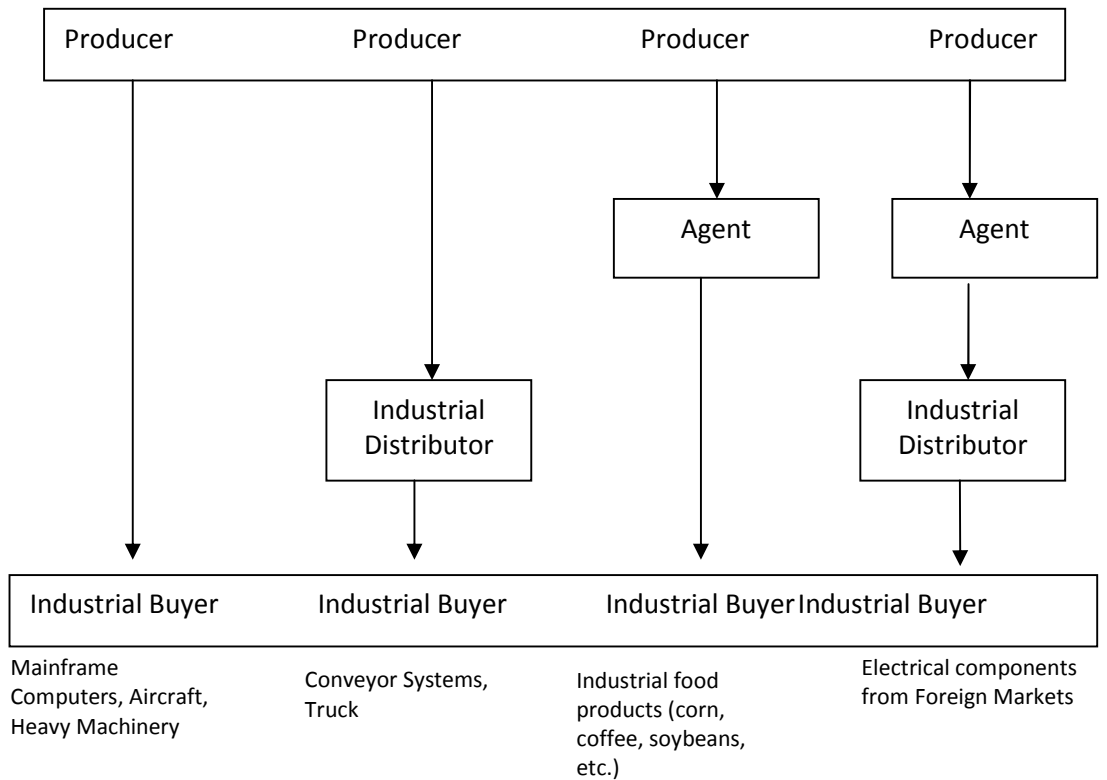


Figure 11.5 : Channels of Distribution for Industrial Goods

**Check Your Progress B**

- 1) Distinguish between a direct channel and an indirect channel.
- 2) From which type of intermediary (wholesaler/retailer/dealer/showroom) you buy the following items.

Items	Types of Intermediary
i) Bread	.....
ii) Milk	.....
iii) Shoes	.....
iv) Wooden Furniture	.....
v) TV Set	.....
vi) Children's Garments	.....
vii) Vegetables	.....
viii) Sweets	.....

- 3) Visit a local Retail Store in your neighbourhood area and find out what type of items he procures from manufacturers, wholesalers and distributors.
- 4) Write the names of two items which are distributed under the following channels:
  - i) Manufacturer → consumer.

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ii) Manufacturer → wholesaler → consumer

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iii) Manufacturer → wholesaler → retailers → consumer

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## 11.5 FACTORS INFLUENCING THE CHOICE OF CHANNEL

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We have learnt that there are a number of channels used for distributing the goods. There are direct channels and indirect channels, short channels as well as long channels. We also learnt that the different channels are used for different types of products. When there are alternative channels available, the selection of an appropriate channel becomes a very important decision for the producers. The choice of a channel for distribution of any product should be such that it should effectively meet the needs of customers in different markets at reasonable cost. The factors which generally influence the choice of the channel of distribution may be categorised under four group as follows:

- 1) Market considerations
- 2) Product considerations
- 3) Middlemen considerations
- 4) Company considerations

### Product Considerations

- 1) **Perishability:** The nature of the product influences the choice of channel. Perishable products like eggs, milk, etc., are supplied either directly or through the short channels. If long channels are opted for perishable goods, they may get spoiled by the time they reach the consumer. So products which are perishable must be speeded through the short channels.
- 2) **Bulkiness:** In the case of heavy and bulky products (e.g., cement, steel, heavy machinery, etc.) where distribution and handling costs are more, short channels are preferred. On the other hand, long channels are found in the case of light-weight and small-size items like dress material, readymade garments, pocket calculators, stationery, toothpaste, toothbrush, etc.
- 3) **Technical nature of the product:** Sophisticated electrical and electronics equipment which require careful handling are also generally distributed directly or through short channels. In the case of sophisticated equipment like computers and xerox machines, considerable amount of presale and post sale service is required. Wholesalers and retailers may not be able to provide such services. So manufacturers often distribute

them directly. However, simple mechanical products like electronic toys, time-clocks, etc., are supplied through long channels for intensive distribution.

- 4) **Product value:** Unit value of the product is also an important consideration while deciding the channel of distribution. Normally larger channels are preferred for products whose unit value is low. However, short channels may be equally economical when such products are sold in bulk or are combined with other products.

### **Market Considerations**

- 1) **Size of the customers:** If the number of customers is large, long and multiple channels are necessary for intensive distribution of goods. Short channels and direct selling are possible in the case of fewer customers purchasing large quantities at regular intervals and if they are concentrated in a small area.
- 2) **Potential volume of Sales:** The choice of channel depends upon the target volume of business. The ability to reach target customers and the volume of sales varies among different channels. If one outlet is not adequate for achieving the target, more channels need to be used. Of course, the competitive situation must be taken into account while examining the potential volume of sale through different channels.
- 3) **Concentration of buyers:** If the buyers are concentrated in a few areas, it is possible for the manufacturer to establish sales divisions in such areas and sell directly to the buyers. Thus, short channels may be feasible when buyers are concentrated in fewer locations. On the other hand, if buyers are spread over a large geographic area, channels may become uneconomical and the manufacturer may have to go for long and multiple channels.
- 4) **Size of the purchase order:** Manufacturer can distribute directly or through a short channel in the case of large scale buyers. Normally long channels are effective and economical in the case of buyers whose purchase orders are usually too small to justify direct sale.

### **Middleman Considerations**

- 1) **Types of middlemen:** Availability of suitable middlemen in the channel of distribution is another factor in the selection of the channel. This is because different functions like standardisation, grading, packing, branding, storage, after-sale servicing, etc., are expected to be performed by middlemen. Efficiency of distribution depends upon the size, location and financial position of middlemen. If the middlemen in a specific channel are dependable and efficient, that channel may be preferred by producers.

- 2) **Channel competition:** There are different situations in which manufacturers compete with each other for availing the services of particular wholesalers. Similarly, wholesalers often compete with each other to deal with particular retailers or carrying particular brands of products. Sometimes producers use the same channel which is used by their competing producers. If any producer arranges exclusive distribution through a particular wholesaler, the other producers also do the same. Thus selection of a channel may depend on the competition prevailing in the distribution system.
- 3) **Availability of middlemen:** The producer may wish to make use of the services of specific category of middlemen, but such middlemen may not be available in the market. They may be carrying the competitors' products and may not wish to add another product line. In such situations, the manufacturer has to make use of the services of the middlemen whoever available in the market.

### Company Considerations

- 1) **Cost of distribution:** The various functions carried out in the channel of distribution add to the cost of distribution. While choosing a channel, the distribution costs of each channel should be calculated and its impact on the consumer price should be analysed. A channel which is less expensive is normally preferred. Sometimes, a channel which is convenient to the customers is preferred even if it is more expensive. In such cases the choice is based on the convenience of the customers rather than the cost of distribution.
- 2) **Long-run effect on profit:** Direct distribution, short channels, and long channels have different implications with regard to the profits in the short-run and long-run. If demand for a product is high, reaching the maximum number of customers through more than one channel may be profitable. But the demand may decline in course of time as competing products appear in the market. It may not be economical than to use long channels. So while choosing a channel one should keep in mind the future market implications as well.
- 3) **Experience and ability:** A manufacturer who has reasonable experience and expertise in marketing the products may prefer to distribute his products on his own.

But the manufacturers who do not have marketing know-how prefer to make use of the services of middlemen.

- 4) **Financial strength:** Lots of financial resources are required to establish a distribution system. So only a financially strong manufacturer can establish his own distribution system and a financially weak firm may have to depend on middlemen.

- 5) **Extent of channel control:** Producers who want good control over the distribution of their products prefer short channels. Controlling of the channels is necessary to undertake aggressive promotion, to maintain fresh stocks and retail prices.

Thus, in making a choice, the manufacturer has to consider his objectives, resources and the channels available to him, nature of the product and characteristics of the buyers. He would like to use the channel of distribution which will produce the combination of sales volume and cost that yields him the maximum amount of profit. There are no set guidelines for channel selection and the manufacturer will have to make his own decision in the light of his own judgment and experience. However, companies douse multiple channels of distribution to ensure that their products reach the maximum number of people.

The task of manufacturer does not end after the channels have been selected. He has to review the services performed by the agencies involved at fairly frequent intervals, keep in close touch with the developments related to the distribution of his product and seek to improve his marketing methods constantly. He may also realise that the best channel when the product was introduced, may not be the most effective one when the product is established. The following criteria may be used for the evaluation of channel members: i) their sales performance, (ii) their marketing capabilities, iii) their motivation to increase the volume of sales, (iv) competition faced by them, and (v) their growth prospects.

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## 11.6 INTENSITY OF DISTRIBUTION

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As discussed earlier, the number of levels in a channel may range from one level which is the most direct (manufacturer-user) upto three levels, depending upon various factors. After deciding the number of levels, each firm has to decide about the number of intermediaries at each level of the channel. Here comes the question of intensity of distribution. **Intensity of distribution refers to the number of intermediaries at each level of marketing channel.** Let us assume that a manufacturer of refrigerators has opted for a one level structure consisting of the manufacturer, retailer and consumer. The decision with respect to intensity of distribution in this case concerns the number of retailers who would be selling the firm's product. In other words, whether a few retailers would be entrusted the role of distribution or a very large number of retailers would be employed to distribute the firm's products. In short, three broad alternative options are available to a firm with regard to intensity of distribution. These are: 1) intensive distribution, 2) selective distribution, and 3) exclusive distribution. Let us learn them in detail:

- 1) **Intensive Distribution Policy:** Intensive distribution policy refers to sale of products through a very large number of outlets. This policy aims



at giving maximum exposure to the product for sale in the market. Generally the producers of convenience goods such as soft drinks, cigarettes, eggs, bread, toilet soap, biscuit, toothpaste, chewing tobacco, etc., adopt the policy of intensive distribution. All these products have low unit cost but are purchased frequently and have large turnover.

The objective of this policy is to reach every potential buyer so that not even a single chance of making a sale is missed. It enables the firm to spread distribution overhead cost over a wider network of dealers and minimise delay in communication in reaching a large number of buyers. However, it is an expensive policy as the firm has to collect and serve small orders from a large number of outlets.

- 2) **Selective Distribution Policy:** As the name suggests, this policy puts a limit to the number of outlets that will be carrying a product. Thus, as against using all possible intermediaries at a particular level, a careful selection is made of the outlet through which the product will be distributed. The manufacturers of shopping goods such as fabrics, fans, washing machines, coolers, TV sets, mopeds, scooters, etc., (for the purchase of which the consumers are willing to make some extra efforts) generally opt for selective distribution.

The policy is more suitable for products having brand preferences because the consumers of such products are expected to approach the channel used by the firm. As the marketing firm does not have to dissipate its efforts over many outlets, including many marginal ones, this policy is less costly than the intensive distribution policy. Also it enables the manufacturer to gain adequate market coverage with greater control as compared to the intensive policy.

- 3) **Exclusive Distribution Policy:** Under this policy, a limited number of dealers are granted the exclusive right to distribute the firm's products in their respective territories. Under this policy, there is an agreement between the manufacturer and middlemen where the manufacturer commits to channelise his products exclusively through the middleman in the whole market or a part thereof. The middleman, in turn, serves the manufacturer exclusively in terms of the products handled and the market served. When an agreement is made with an agent middlemen, it is known as **sole selling agency**. But when such agreement is between a manufacturer and a merchant, it is known as **dealership** at wholesale level and **distributionship** at retail level.

Exclusive distribution policy is particularly suitable for those products which are slow-moving, have high unit value and require after sales service. Thus, a large number of manufacturers of mopeds, scooters, cars, trucks, etc., adopt exclusive distribution policy for their products. For example, Maruti Udyog Ltd., Ashok Leyland. Bajaj Scooters, and

Lohia Machines Ltd., have appointed dealers/distributors in different territories for the distribution of their products.

The policy of exclusive distribution allows maximum control over prices, promotion, services, etc., by the manufacturer firm. Thus, exclusive distribution is usually undertaken when the manufacturer desires more aggressive selling on the part of middleman or when increased control over distribution is deemed to be important. Another advantage of exclusive distribution is that it leads to specialisation on the part of the dealer which results in improved after-sales services to the customers. However, there may be problems in getting cooperation from the dealers. As such there is a need for careful management of the channel members in this arrangement. Also, many a time such arrangements in our country have been declared anti-competitive by the Competition Commission.

The decision with respect to intensity of distribution is an important aspect of channel structure and is often considered as a key factor in the firm's basic marketing strategy. It also reflects the firm's overall business policies. For example, marketing strategy that seeks to blanket the market with a product would require a channel structure that has a very high level of distribution intensity. But a low intensity or a high degree of selectivity would be required to be built into the channel structure when the marketing strategies focus on carefully chosen target market. In general, when a firm's basic marketing strategy requires mass appeal for its products, intensive distribution is used. But when the strategy calls for stressing more narrow segmentation, a more selective channel is used.

### **Check Your Progress C**

- 1) Distinguish between multiple channels of distribution and intensive distribution.
- 2) Distinguish between selective distribution and exclusive distribution.
- 3) What is intensity of distribution?
- 4) List out the factors which influence the choice of channels of distribution.
- 5) State whether the following statements are **True** or **False**.
  - i) Normally direct channel is preferred for heavy engineering machinery.
  - ii) Intensive distribution policy is followed for distributing bread.
  - iii) Intensive distribution means using multiple channels for the same product.
  - iv) Direct channel is suitable when there are a few big buyers concentrated in one area.

- iv) Manufacturer can have more control over distribution in the case of show channels.

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## 11.7 LET US SUM UP

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Channel of distribution refers to a network of institutions that perform a variety of interrelated and coordinated functions in the movement of products from producer to consumers. Distribution channels play a very important role in achieving the marketing objectives of an organisation. They create time, place, ownership and convenience utilities to the product and thereby add to its value. The functions performed in the channels of distribution are of three kinds: (i) transactional functions which are necessary for purchase and sale, (i) logistical functions which are required for physical exchange of goods, and (iii) facilitating functions which facilitate the transactions as well as physical exchange.

Channels of distributions can be grouped into two categories: (1) direct selling by manufacturers (direct channel) and (2) use of middlemen such as agents, wholesalers and retailers (indirect channel). Channels of distribution for consumer goods of daily use consist of agents or brokers, wholesalers, and retailers as intermediaries. Durable consumer goods are generally distributed through showrooms of manufacturers, or through retailers called dealers. Capital goods are often sold directly by manufacturers. Sometimes distributors, dealers or agents are employed for supply of such goods.

The choice of a channel for the distribution of any product depends upon a number of factors such as characteristics of the product (perishability, bulkiness, technical nature, unit value), nature of the market (size of the customers, concentration of buyers, size of purchase order, potential volume of sales), middlemen considerations (type of middlemen, channel competition, availability of middlemen) and company considerations (cost of distribution, long-run effect on profits, experience and ability, financial strength, extent of channel control). However, while selecting the channel, manufacturer will have to make decision in the light of his own judgment and experience. Normally most of the companies use multiple channels of distribution to ensure that their product reaches the maximum number of people.

The channels of distribution perform all such functions which facilitate transfer. A significant decision in the area of channels is with respect to intensity of channels which means deciding about the number of intermediaries to be used at each level of marketing channel. The three alternative options with respect of intensity of distribution are (i) intensive distribution, (2) selective distribution, and (3) exclusive distribution. In general, when a firm's basic marketing strategy requires mass appeal, for its products, intensive distribution policy is adopted. But when the strategy calls for stressing more narrow segmentation, a more selective channel is used.

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## 11.8 KEY WORDS

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**Channel of Distribution:** A network of institutions that perform all the activities necessary for moving a product and its title from the manufacturer to the ultimate consumers or users.

**Digital Marketing Channels:** Use of online or internet enabled marketing channels for distribution of goods and services.

**Direct Distribution:** The method of distribution under which manufacturers directly sell the product to consumers without engaging any intermediary.

**Exclusive Distribution:** Distribution of products through some limited outlets which are granted exclusive rights to distribute the firm's products in their respective territories.

**Indirect Distribution:** The method of distribution under which the products are moved from producers to users with the help of one or more intermediaries.

**Intensive Distribution:** Distribution of products through a very large number of intermediaries at each level of marketing channel.

**Multiple Channels of Distribution:** Simultaneous use of different channels for the same product.

**Selective Distribution:** Distribution of products through a limited number of intermediaries at each level of the distribution channel.

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## 11.9 ANSWERS TO CHECK YOUR PROGRESS

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A 2 i) False      ii) False      iii) True      iv) False  
v) True

C 5i) True      ii) True      iii) False      iv) True      v) True

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## 11.10 TERMINAL QUESTIONS

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- 1) A new soft drink manufacturing company which has successfully launched its cola and lemon drinks in Mumbai is planning to introduce these products to the other three metropolitan cities in the country. What kind of distribution channel would you recommend to the company? What factors would you take into consideration while selecting the appropriate channel for this company?
- 2) In your opinion which policy (intensive, selective, or exclusive) is suitable for distributing the following products? Give reasons also.
  - i) Cotton fabrics
  - ii) Readymade garments for children

- iii) Industrial machinery
  - iv) Soft drinks
  - v) Washing machines
  - vi) Fast food products like Potato Chips, Noodles, etc.
- 3) A company at present is selling its products directly to institutions and other buyers through a network of fifty salesmen. You have to persuade the company to discontinue direct selling and switch over to selling through intermediaries. What do you suggest.
- 4) What is a channel of distribution ? What factors do you keep in mind while selecting distribution channel for your product ?
- 5) Channels of distribution are different for different products. Why ?
- 6) What do you mean by direct channels and indirect channels? Explain the channels used for consumer goods and industrial goods.
- 7) A channel of distribution creates various utilities to the product ?Discuss.
- 8) “As consumers are becoming familiar with technology, a new form of marketing channel is cutting the traditional brick & mortar form of distribution channel.” Comment.

**Note:** These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.

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## **UNIT 12 CHANNELS OF DISTRIBUTION-II**

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### **Structure**

- 12.0 Objectives
- 12.1 Introduction
- 12.2 Meaning and Role of Middlemen
- 12.3 Types of Middlemen
  - 12.3.1 Functional Middlemen
  - 12.3.2 Merchant Middlemen
- 12.4 Wholesalers
  - 12.4.1 Classification
  - 12.4.2 Functions
  - 12.4.3 Services
- 12.5 Retailers
  - 12.5.1 Functions
  - 12.5.2 Services
  - 12.5.3 Classification
- 12.6 Trends in Wholesaling and Retailing
- 12.7 Let Us Sum Up
- 12.8 Key Words
- 12.9 Answers to Check Your Progress
- 12.10 Terminal Questions

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### **12.0 OBJECTIVES**

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After studying this unit, you should be able to:

- explain the meaning and role of middlemen in the distribution of goods;
- classify the middlemen;
- describe the functions of mercantile middlemen;
- discuss the meaning, importance, functions and classification of wholesalers and retailers; and
- explain the recent trends in wholesaling and retailing.

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### **12.1 INTRODUCTION**

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In the previous unit you have learnt that a number of intermediaries such as agents, distributors, wholesalers, retailers, etc., operate in moving the goods from producers to consumers. To be able to appreciate the channel system

fully, it is important to understand the specific roles performed by each of these intermediaries. In this unit, you will study the role of intermediaries, classification of intermediaries, and specific functions and services rendered by wholesalers and retailers. It also explains the recent trends in wholesaling and retailing.

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## 12.2 MEANING AND ROLE OF MIDDLEMEN

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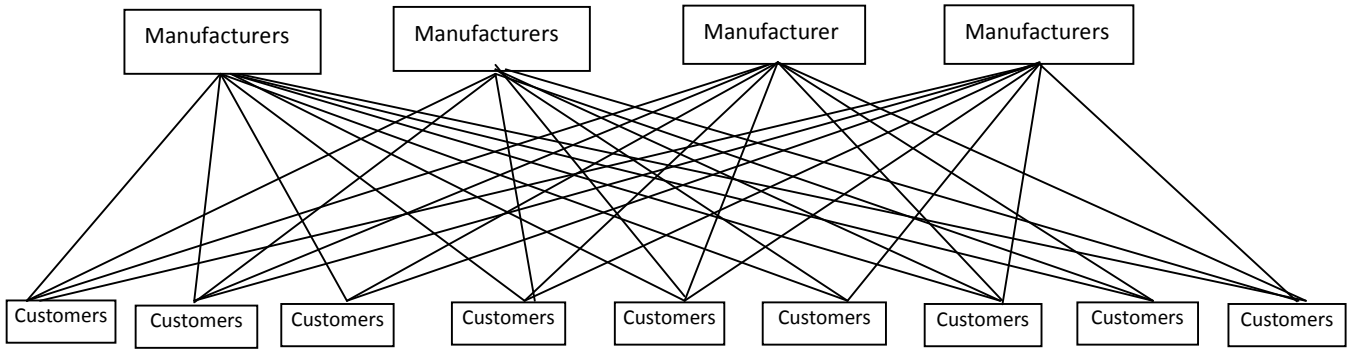
The term middlemen refer to the business organisations which are the link between producers and consumers of goods, and render services in connection with the purchase and/or sale of products as they move from producer to the consumers.

Some people often question the wide use of middlemen and feel that it may not only delay the availability of goods but also add to the cost of distribution and hence, the price charged from customers may be higher. But it is not the case in practise. In fact, the middlemen play a very useful role in the distribution of goods by providing a variety of functions at reasonable cost. They undertake all the channel functions (such as assembling, grading, packaging, storing, financing, risk-bearing, etc.). We may however put them more specifically as follows:

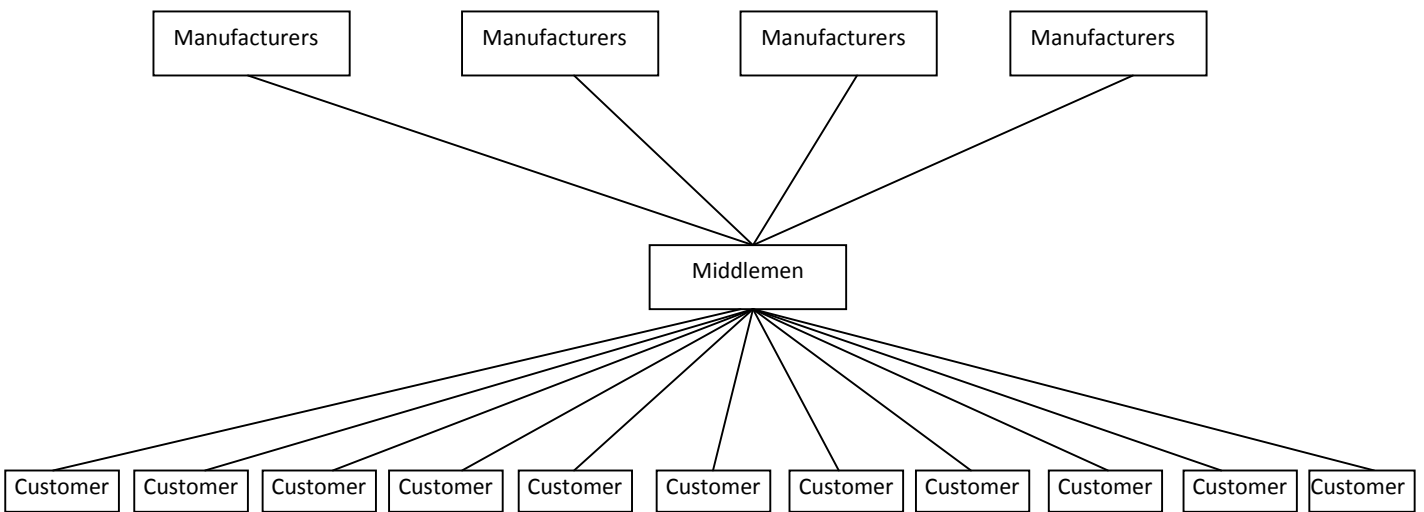
- 1) **Creation of utilities:** By performing various functions in the process of distribution middlemen create place utility, time utility, convenience utility and ownership utility in the goods and services. Thus, the channels greatly help in market by adding value to the products. In fact, in the case of several consumer products, the value added in distribution is higher than that added during manufacture/production.
- 2) **Economy in effort:** Middlemen greatly increase the efficiency of the exchange process by reducing the amount of effort on the part of the manufacturers contacting the consumers. This, in turn, reduces the total cost of distribution of the products. For example, assume that there are five manufacturers and ten customers. Now look at Figure 12.1 carefully and study the number of contacts required when all the five manufacturers contact the ten customers directly. Study Figure 12.2 carefully where the manufacturers used the services of a middleman.

It is evident from the figures that there is considerable economy of effort in the second case (Figure 12.2) where a middleman is in the distribution process. There is a net saving of 35 contacts in this situation as compared to the first situation in which there is no intermediary. Assuming that it costs Rs. 20 to make one contact, the cost of distribution in the first situation would be Rs. 1,000 as compared to Rs.300 in second situation.

**Distribution**



**Figure 12.1: Number of contacts when the Manufacturers Contact the Customers**



**Figure 12.2: Number of Contacts when the Services of a Middleman is used**

- 3) **Market coverage:** With the increasing liberalisation in trade, the products manufactured at one place have to be distributed throughout the length and breadth of not only one country but many nations of the world. This vast coverage is possible only through effective management of the distribution channels.
- 4) **Provide local convenience to consumers:** Merchant middlemen like retailers are located at convenient shopping centres. They provide ready delivery of goods to the consumers at the convenient points.
- 1) **Provide field stocks:** The agents and wholesalers are spread all over the country. They buy in bulk and keep the goods in stock. The retailers can approach them any time and buy their requirement. The producers, therefore, need not stock their goods in different cities which would be quite a cumbersome activity involving huge investment and management problems.
- 2) **Financing:** The agents finance the distribution activity in many ways. They often pay cash for their bulk purchases from the producers and even advance money to them against their orders. The funding of field stocks is thus fully handled by the middlemen.



- 7) **Servicing:** They arrange for the after sales services and handle all kinds of complaints by the consumers locally. The manufacturer does not have to open his own service centres at all places.
- 8) **Help in promotion:** They also help the sales promotional activity through displays and salesmanship. It is literally impossible for the producers to organise such activity more effectively through any other means. Even otherwise, the middlemen being local people are more effective.

Apart from the variety of services provided by the middlemen, what makes their role more important is the fact that they handle them more efficiently and usually at a reasonable cost. They are better equipped to perform these functions because they possess special knowledge and skills, experience and contacts. The manufacturers would find it very difficult to organise the distribution network and provide the necessary funds. You should remember that the distribution of goods and provision of essential services is a gigantic task which involves huge funds and management problems. By making use of middlemen the manufacturers are freed from the botheration of distribution. They can concentrate on production activity which may be more profitable. Not only that, in case of mass consumption items it is almost impossible for the producers to organise direct sale in every nook and corner of the country.

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## 12.3 TYPES OF MIDDLEMEN

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Different types of middlemen participate in the process of movement of goods and its title from producers to ultimate users. These may broadly be grouped into two categories as: 1) primary participants and 2) ancillary participants.

The **primary participants** are the individuals or organisations which undertake to perform the negotiatory functions of selling and transferring title of the goods to others. These participants are called the channel members. The **ancillary or facilitating participants**, on the other hand, are the group of institutions and parties that assist channel members (primary participants) in performing the distribution tasks. They do not take part in the channel decisions but only provide services to channel members once the basic channel decisions have been made. The most common facilitating participants are financing institutions, public warehouses, transportation companies and advertising agencies. Of course some of these services can be undertaken by the channel members themselves. For example, a merchant wholesaler can operate private warehouse and trucks. But the essential feature of the facilitating participants is that they assume limited risk or no risk in the functioning of the channel.

We will study in detail about the facilitating participants in Unit 13. We shall concentrate the discussion on primary participants in this unit. Broadly speaking primary participants may be further classified as: 1) functional

middlemen or mercantile agents, and 2) merchant middlemen. Now let us study these two categories in detail.

### 12.3.1 Functional Middlemen

Those who undertake various marketing functions in the process of distribution of goods without having ownership rights are called **functional middlemen**. These functional middlemen operate on behalf of owners. They perform a specific function or undertake general functions relating to purchase and sale. These middlemen are called '**mercantile agents**'. Depending on the functions performed, the functional middlemen may be classified into five categories. Let us discuss them briefly.

- 1) **Factors:** A middleman who keeps the goods of others and sells them with the approval of the owner is known as a 'factor'. The goods are normally in his possession or under his control. With the approval of the owner the factor can sell the goods as agent, or sell in his own name, or pledge goods in his possession or can do all such acts as can be done by the owner of the goods. After the sale of goods, he receives the payment from the buyer. He receives commission at a fixed percentage on sales from his principal.
- 2) **Brokers:** They take neither possession nor acquire ownership of the goods, but only serve to bring the buyers and sellers together. They negotiate purchase and sale of goods on behalf of other parties. Their task is over as soon as the buyer and the seller come to terms in respect of the purchase or sale of the goods. When a broker acts, on behalf of the buyer, he is known as **buying agent**. If the owner of goods employs a broker for sale of the goods, the broker is known as a **selling agent**. The broker works for a certain percentage of commission on the business transacted by him on behalf of his principal.
- 3) **Commission Agents:** They also sell goods on behalf of the sellers. But they differ from brokers in that they not only negotiate the sale of goods but also take possession of the goods and make arrangements for the transfer of title to the goods. The commission agent has to perform the functions of warehousing, grading, packing or sampling in addition to assembling and dispersion. For their services, the commission agents get a certain percentage of commission on sales. If the commission agent is authorised to sell on credit and agrees to bear the risk of bad debts for some additional commission, he is known as a **del credere agent**.
- 4) **Del Credere Agents:** Generally if any mercantile agent sells goods on credit with the approval of the owner, he is not responsible for any loss which may arise due to non-payment by the buyer. The owner or principal has to bear the risk of loss on account of such bad debts. When a mercantile agent sells the goods on credit and assumes the risk of bad debts, he is known as a del credere agent. For bearing such risk of bad

debts, additional commission as a fixed percentage of the amount of credit sales is given to him. This additional commission is called **del credere commission**. In other words, the del credere agent bears the loss which may arise on account of bad debt and the owner is protected against the loss.

- 5) **Auctioneers:** Middlemen appointed as agents to sell goods by auction are known as auctioneers. They assemble goods from different parties and act on their behalf to sell them to intending buyers. The date and time of auction are announced in advance. Goods are displayed for inspection by interested buyers. Bids are then invited by the auctioneer from those present at the time of auction. Sometimes a minimum price is fixed for specific items known as **reserve price** and bids are not accepted below that reserve price. The goods are sold to the highest bidder. The auctioneer gets commission from the principal (seller) as a percentage on the sale price.

### 12.3.2 Merchant Middlemen

Middlemen who act on their own right buying and selling goods at a profit are called **merchant middlemen or merchants**. They acquire title to the goods and bear the risks of trade besides performing various functions like storing, grading, packing and packaging, etc. Merchant middlemen may be divided into two categories.

- 1) Wholesale traders
- 2) Retail traders

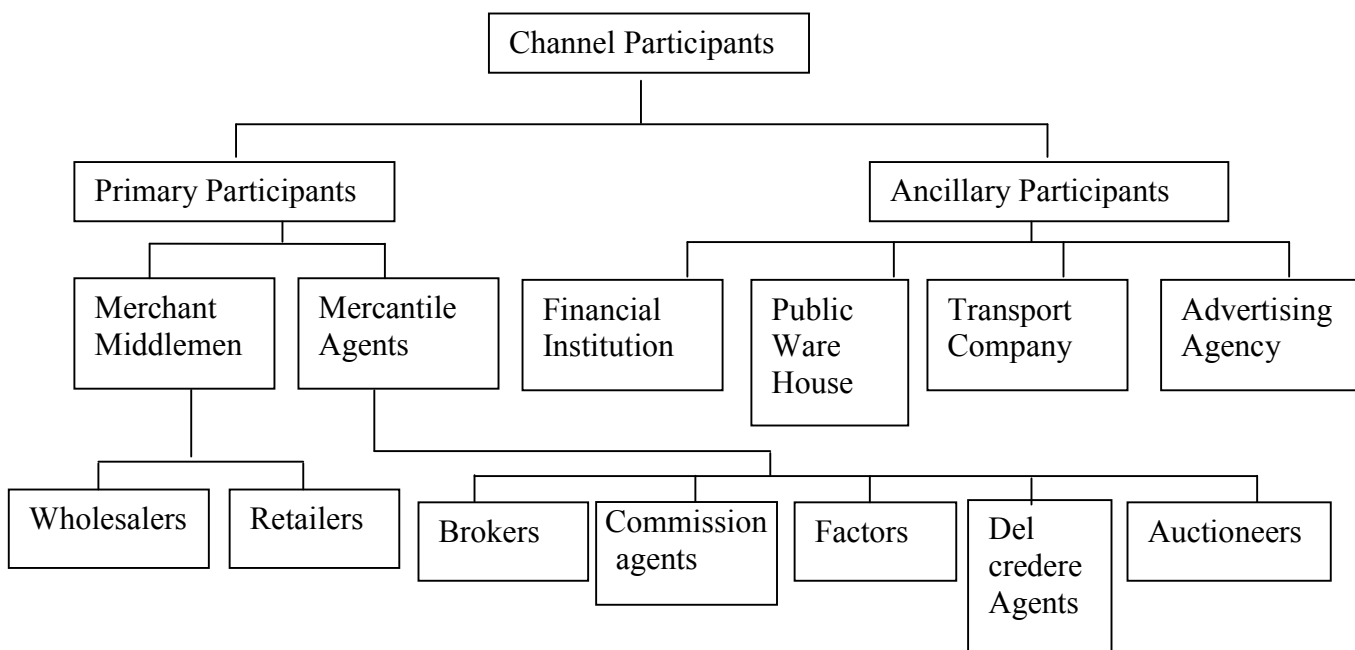


Figure 12.3 :Classification of Middlemen

Merchants who buy goods from producers or manufacturers or their agents and sell the same to industrial consumers or retail traders are known as **wholesale traders**. The middlemen who buy goods from producers or wholesalers and sell the same to ultimate consumers are known as **retail traders**. Thus, retailers act as the final link in the channel of distribution. You will study in more detail about wholesalers and retailers later in this unit.

Look at Figure 12.3 carefully for the summary of the discussion on classification of middlemen.

### Check Your Progress A

- 1) Differentiate between functional middlemen and merchant middlemen.
- 2) Differentiate between broker and commission agent.
- 3) Who is a middleman?
- 3) State whether the following statements are **True** or **False**.
  - i) Middlemen who undertake marketing functions without having title to goods are called merchant middlemen.
  - ii) Middlemen do not bear risk in the distribution of goods.
  - iii) With the approval of the owner, a factor can do all such acts as can be done by owner of the goods.
  - iv) A del credere agent is not responsible for any loss which may arise due to non payment by the buyer.
  - v) Brokers operate only on behalf of buyers,
  - vi) In the process of distribution, functional middlemen do not take title to goods.

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## 12.4 WHOLESALERS

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Simply stated, wholesalers are those who happen to be engaged in wholesaling or wholesale trade. In a broad sense, any individual or business firm selling goods in relatively large quantities to buyers other than the ultimate consumers may be called a wholesaler. Thus manufacturers who sell their products directly to retailers may be regarded as wholesalers. However, **in a more specific sense the term wholesaler may be defined as a merchant middlemen engaged in buying and reselling of goods to retailers and other merchants, or to Industrial or Commercial users.** Wholesalers do not sell the products to ultimate consumers. The wholesalers belong to the category of merchant middlemen who acquire title to the goods they handle. Agents or brokers may also act as wholesale middlemen but they do not acquire the title to goods. Wholesalers act as middlemen between producers or importers of goods on the one hand, and retailers or industrial

users on the other. The goods traded by wholesalers may include: agricultural commodities, forest products, minerals as well as manufactured goods.

Manufacturing companies often do not have adequate capital to employ salesmen to contact the large number of retailers. Many small retailers run their business in remote areas and to contact them may be too expensive. Moreover, small retailers generally prefer to buy products in small quantities due to their limited capital, lack of market information and sources of supply. The wholesalers solve the problems of manufacturers as well as small retailers. A wholesaler can place sufficiently large order with the manufacturer keeping in view the requirements of a number of small retailers in his area. In that process, the wholesaler is in a position to meet the small orders of retailers.

From the society's point of view, distribution of goods may be efficient because of the specialised knowledge and skill of wholesalers. On the other hand, manufacturers can concentrate on efficient production of goods. Naturally, they do not undertake the distribution of their products because their efficiency in manufacturing would suffer on account of divided attention.

### 12.4.1 Classification

Wholesalers may deal in a large or limited variety of products, restrict their activities mainly to wholesaling or perform various functions incidental to their trade, and may operate in small or large geographical territories. Accordingly, wholesalers may be classified on three different bases: (1) merchandise dealt with, (2) method of operation, and (3) coverage of geographical area. Look at Figure 12.4 for classification of wholesalers.

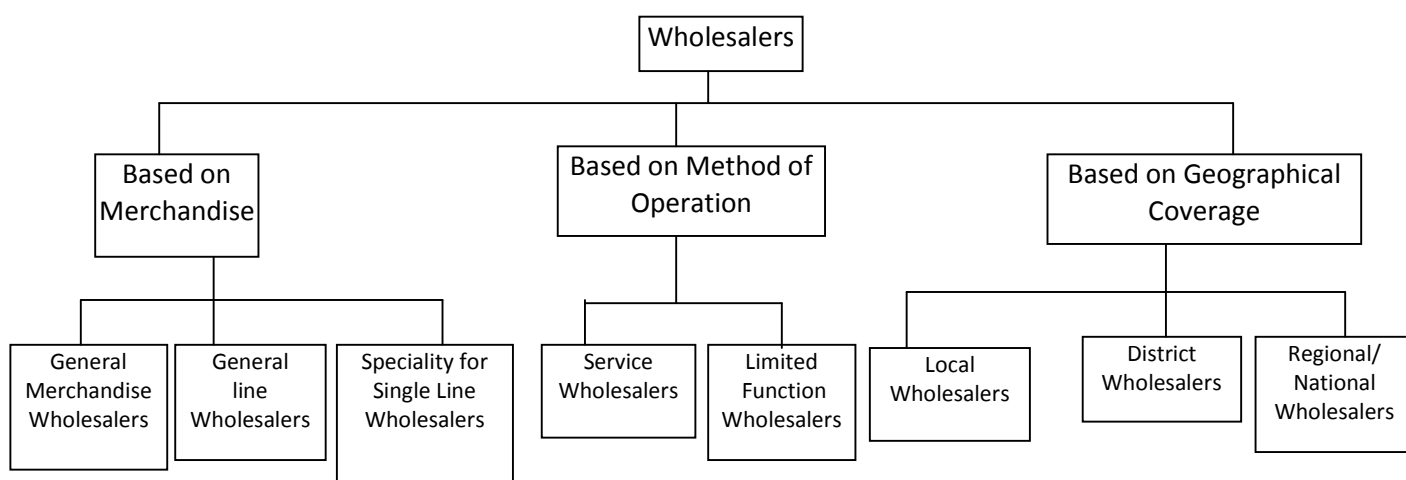


Figure 12.4 : Types of Wholesalers

#### Merchandise Basis

On the basis of goods dealt with by the wholesalers, we may distinguish three types of wholesalers:

- i) **General merchandise wholesalers** – those deal in two or more unrelated types of products. For instance, a merchandise wholesalers are those who deal in a number of consumer durables like electrical goods, sports goods, cosmetics, hosiery etc.
- ii) **General-line wholesalers** – those who carry a number of goods in the same product line. For instance, a wholesaler may carry convenience goods of daily household necessity like soaps, detergents, toothpaste, razor blade etc., or may stock cereals and provisions like wheat, rice, dal etc.
- iii) **Single-line or specialitywholesalers**-those who restrict their operation to a narrow range of products or specific products. Wholesalers dealing in a few varieties of (cloth), or carrying varieties of printing paper only may be called speciality wholesalers, or single-line wholesalers.

### **Method of Operations**

On the basis of the method of operations, wholesalers may be divided into two categories:

- i) **Service wholesalers** - Those who perform a variety of functions like advertising, grading, branding, packaging, etc., on behalf of manufacturers and retailers.
- ii) **Limited function wholesalers** - Those who undertake to carry out a few limited functions, like packaging or grading.

### **Geographical Covered**

On the basis of the geographical coverage of dealings, wholesalers may be grouped into three types:

- i) **Local wholesalers** — those who restrict their operation to a particular city or town and supply products to retailers in that area.
- ii) **District wholesalers** - those who have dealings with retailers located in a district.
- iii) **Regional or national wholesalers** — those who specialise in products having a nationalmarket and are nationally advertised. They have dealings with retailers located in a region or a country.

### **12.4.2 Functions**

In the preceding section we have learnt that wholesalers perform limited functions or undertake a variety of functions. Actually, the functions of a wholesaler depend upon the nature of the products dealt with and the business policy of that particular wholesaler. Of course every wholesaler must carry out the minimum functions of buying, storing and supplying one or more products. Besides these primary activities, several other functions may also be performed by wholesalers.

The wholesalers perform the following important functions of marketing:

- 1) **Assembling:** The wholesaler collects varieties of products from different manufactures and keeps them in stock for sale to the retailers at the time when they need them.
- 2) **Dispersion:** The products assembled and stocked by the wholesalers are supplied to the retailers who may be widely scattered.
- 3) **Warehousing:** The goods purchased by the wholesalers from the manufacturers and producers have to be stocked in warehouse pending for their sale to the retailers. The arrangement for such storage is the responsibility of the wholesalers.
- 4) **Transportation:** The wholesaler has to move the goods from the various factories to his own warehouse and from there to the retail stores. He may do so either by employing his own vans or by hiring public carriers.
- 5) **Financing :** The wholesaler in most cases provides goods on credit to the retailers.
- 6) **Risk-assuming:** The wholesaler assumes the risk arising out of the changes in prices and demand as also loss due to spoilage or destruction of goods in his warehouse.
- 7) **Grading and Packaging:** The wholesaler has to sort out different grades of products according to quality and other considerations and pack the goods into smaller lots for retailers.
- 8) **Price fixation:** The prices of goods which consumers have to pay depend upon the prices fixed by wholesalers and charged from retailers. This is an important function performed by wholesalers because a number of factors including prices of competing goods, effect of prices on demand, etc., have to be taken into account.

### 12.4.3 Services

We have already learnt how wholesalers serve manufacturers and retailers by buying goods in large quantities, holding stocks and supplying smaller quantities to the retailers. In that way the wholesalers act as a bridge between producers and retailers. Let us now examine closely the services rendered by wholesalers to the manufacturers and retailers.

**Services to Manufacturers:** Wholesalers provide the following services to the manufacturers:

- 1) The wholesalers place large orders with the manufacturers or procure large quantities of goods from manufacturers. Thereby manufacturers are relieved of the task of marketing their goods, and they can concentrate on production only. Manufacturers need not necessarily hold large stocks in

their godown. Hence, there is saving of expenses on storage and warehousing.

- 2) Wholesalers remain in close touch with the retailers. They get regular information from the retailers about changes in the consumer's demand for particular products as also about competing products. On the basis of such information, wholesalers place orders with manufacturers. Thus, wholesaler's purchase orders reflect the changing market conditions. Hence, the volume of production can be regulated by the manufacturers in accordance with the changing market conditions as reflected by the wholesaler's purchase orders.
- 3) Often the wholesalers place orders in advance on the basis of their expectations regarding future demand of products even though the current demand is low. This helps manufacturers to continue their production on an even pace.
- 4) Wholesalers may also participate in the advertising of products jointly with the producers, which is of great advantage to both the parties.

**Services to Retailers:** Wholesalers render the following services to retailers:

- 1) A variety of goods can be procured by retailers in small quantities from the wholesalers. Most retailers serve a large number of customers. Thus, different types of products have to be stored by a retailer to meet the needs of individual consumers. It is difficult for him to buy the products from different manufacturers in small quantities. He can easily do so by contacting a few wholesalers.
- 2) Small retailers can get repeated supplies of products from wholesalers. Thus they can be able to run their business with a relatively small amount of capital. Large stocks are not to be held by them, so there is saving of storage space as well.
- 3) Wholesalers have expert knowledge of the lines of products they deal with. They procure the items from the best sources, that is from producers who supply the best quality at competitive prices. Retailers also get advantage of the wholesalers specialised knowledge of the products.
- 4) Retailers are protected from the risk of loss which would arise if they were to hold large stocks of any product. It is the wholesalers who bear the maximum business risks arising out of falling demand for products.
- 5) Most wholesalers supply goods on credit to the retailers. This enables small retailers to pay for the goods after sale or customer payment on account. The working capital required for retail trading is thus relatively small.



- 6) Generally retailers come to know about new products only through the wholesalers who deal with manufacturers. Whenever any new product is introduced, wholesalers bring it to the notice of retailers either through salesmen or display in showrooms.

### Check Your Progress B

- 1) Who is a wholesaler?
- 2) Visit a wholesaler in your area and find out the following:
  - i) Whether he deals in general merchandise or general line or single line.
  - ii) The services rendered by him to the retailers.
- 4) Whether the following statements are **True** or **False**.
  - i) Wholesalers do not sell products to ultimate consumers.
  - ii) Wholesalers sell goods to industrial users.
  - iii) Wholesaler is a mercantile agent.
  - iv) General line wholesalers deal in a very narrow range of products.
  - v) A local wholesaler normally have dealings with retailers located in a region/state.

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## 12.5 RETAILERS

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In simple words retailing refers to all transactions which involve sale of goods to the ultimate consumers for personal consumption. If the buyer uses the goods for reselling purposes it will not be treated as a retailing transaction. Any individual or business unit or shop primarily engaged in retail selling is known as **a retailer or retail store**. In a general sense, even a manufacturer or wholesaler may sometimes engage in sale of goods to the ultimate consumers. But they are not called retailers as retailing is not the major activity of such a manufacturer or wholesaler. Thus, **a retailer or retail store is one whose business consists primarily of sale of goods to consumers for their own use, but not for resale in business**. Retail business may include other types of transactions also. It will be treated as a retailing business if more than half of its total sales revenue is from retail trading.

A retailer is a middleman because retailing involves procuring goods from suppliers (generally wholesalers) and selling them to consumers for the personal use. Retailers perform the very important task of making goods available to consumers, which after all is the objective that underlies the production of goods. Retailers thus form a vital link in the channel of distribution of products.

Since the retailers deal with a large number of consumers of many different categories, the role of retailers in the physical distribution of goods is clearly of vital importance. The retailers act as a link between the producers or wholesalers on the one hand and the consumers on the other. Without retailers, neither the products would sell in distant places, nor would it be possible for consumers to buy goods of their choice in shops located nearby. Due to large-scale manufacture of a wide variety of consumer goods and the necessity of making them available to individuals living in distant villages, cities and towns, retailers are now regarded as the most important middlemen in the chain of distribution of goods.

### 12.5.1 Functions

Like the wholesalers, retailers also perform a variety of functions connected with the buying and selling of goods. They, in brief perform the following functions:

- 1) **Estimating the demand:** All retailers - big or small have to make an estimate of the demand for different products and have to determine the nature of products that consumers need to be supplied.
- 2) **Procurement of goods:** Most retailers deal in a variety of products. So they may have to procure goods from different wholesalers. Besides, they must decide to buy from those wholesalers who supply goods suited to the requirements of consumers considering the quality and price.
- 3) **Transportation:** Usually the retailers are to arrange the transportation of goods procured from the wholesalers' place. Sometimes delivery is also arranged by the wholesalers on the basis of orders placed with their salesmen.
- 4) **Storing goods:** Small-scale retailers have limited space for the goods to be kept in stock. Large retail stores often have godowns to store different varieties of goods in adequate quantities. But in all cases, goods have to be held in stock so as to meet the customer's needs. For this purpose storage of goods must be so arranged that customers may be served without delay. They must be given an opportunity to select goods of their choice. This is often done by display of goods on shelves and in show cases.
- 5) **Grading and packaging:** Large-scale retailers often have to sort out goods according to the quality and price to be charged. They also make convenient packages of goods for the benefit of consumers. For instance, fruit vendors purchase apples in containers (boxes), sort out on the basis of size and charge different rates for different sizes. Spices which are procured in bags, may be divided into small packets of 100 or 200 grams each.

- 6) **Risk-bearing:** Since goods are held in stock, the retailers are to bear the risk of loss on account of deterioration of quality, fire, theft, etc. Large retail stores are insured to cover the risks of theft or fire. But losses due to damage or deterioration of quality caused by improper storage cannot be insured.
- 7) **Selling:** The main function of retailers is selling the goods to ultimate consumers. They have to satisfy the needs and preferences of different types of customers and deal with them tactfully and politely so as to make them regular buyers.

### 12.5.2 Services

As middlemen engaged in the distribution of goods, retailers deal with wholesalers and consumers. Manufacturers as well as wholesalers depend a great deal on retailers for reaching the ultimate consumers to supply various products. Retailers provide the necessary outlet for goods and thus render very useful service to the wholesalers and in several ways also to the producers indirectly. The services of retailers to the consumers are significant in several ways:

- 1) By holding ready stocks of various commodities required by the consumers, retailers relieve the customers of the need for stocking a wide variety of goods which could be extremely inconvenient and cumbersome.
- 2) By keeping a good assortment of the various varieties of a particular product, say soap, toothpastes, etc., retailers provide a wide variety of choice to their customers.
- 3) By proper display of new products, the retailers keep the consumers informed about the changing trends in production of different varieties of goods, besides helping manufacturers to promote the products.
- 4) Retailers very often guide their customers about the relative merits of the various brands of a particular product and thus help them in the selection of goods.
- 5) Retailers may provide special facilities to their customers, for example, free delivery, extension of credit, after-sales service, etc.

### 12.5.3 Classification

Broadly speaking, we may divide the retailers into two categories as: 1) itinerant retailers, and 2) fixed shop retailers. Fixed shop retailers can be further classified as: 1) Small scale retailers, and 2) large scale retailers. All these categories can be further classified as shown in Figure 12.5

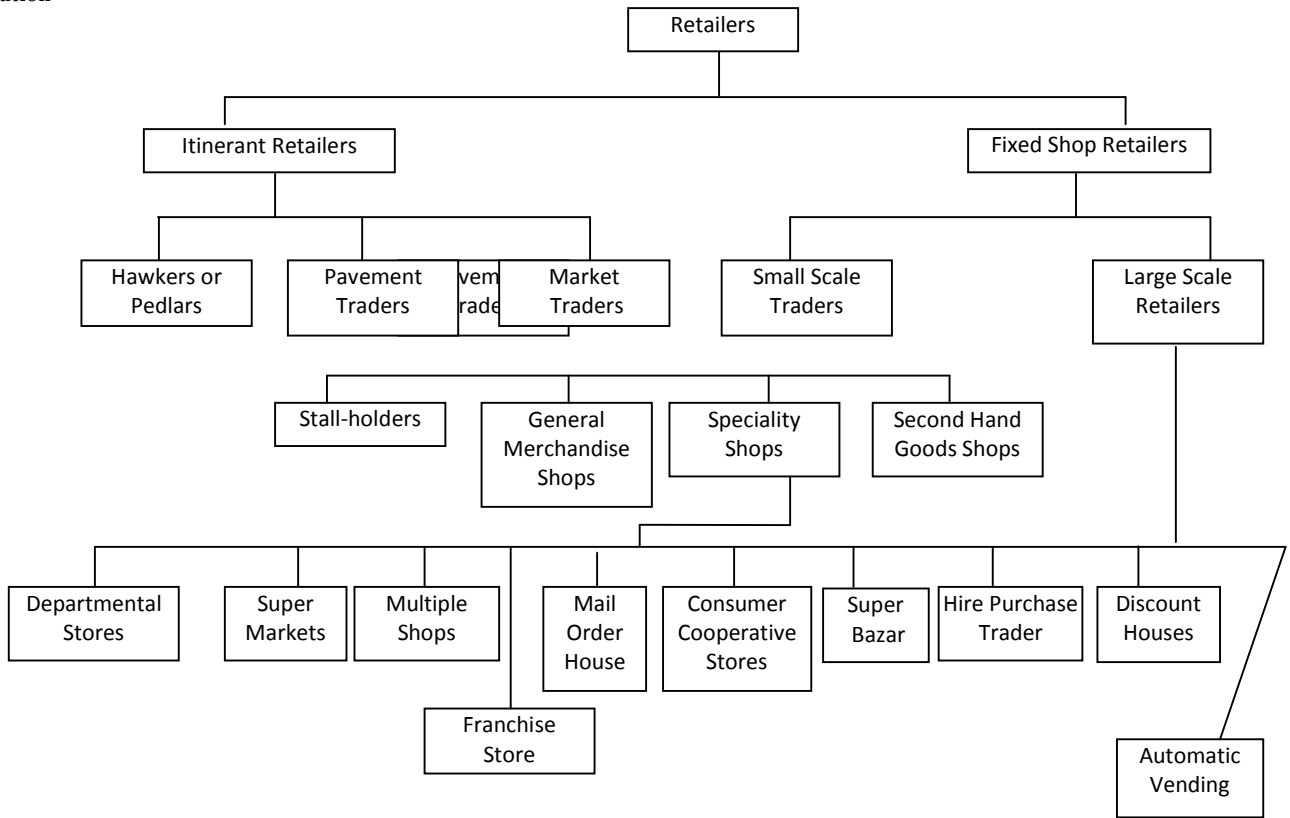


Figure 12.5 :Classification of Retailers

**Itinerant Retailers**

Retail traders who carry on business moving about from place to place to sell their goods are known as itinerant retailer. They do not have any fixed place of business. They either move from house to house with their goods, or change their place of business frequently according to convenience and sales prospects. Thus, these itinerant retailers move about and try to reach as nearer to the buyer as possible. There are three types of itinerant retailers. Let us learn them.

- 1) **Hawkers or pedlars:** These retailers move from door to door in residential localities and sell their goods which may consist of vegetables, fruits, utensils, toys, ice cream, snacks, etc. They carry their articles in bags or trays hanging from shoulders, on bicycles or push carts, small motor vans or horse-drawn carriages.
- 2) **Pavement traders:** Pavement traders are found in busy market areas, street crossings, in front of railway stations and bus terminals. The goods traded by them include items like hand bags, cut-pieces of cloth, readymade garments, footwear, household utensils, toys, books and journals, pens and pencils, fruits, vegetables, etc. These traders sometimes put up temporary sheds or make-shift platforms for display of goods. More often they spread their wares on pavements at different places depending on the prospects of sale.

- 3) **Market traders:** This type of itinerant retailers generally sell their goods in weekly markets held in small towns or villages. They move from one market to another in the neighbouring places on specific days fixed for the market.

**Services of Itinerant Retailers :** These retailers serve consumers at the nearest and the most convenient places. They serve either at the consumers' door-step or on busy places which consumers normally visit. Thus, housewives and working people find it very convenient to buy goods from itinerant traders like hawkers and pavement traders. Market traders in small towns and villages are also very useful to the consumers as they do not have fixed shops within easy reach. All itinerant retailers save time and effort of customers in buying articles of ordinary use. Housewives have the satisfaction of shopping leisurely at their doorstep.

### **Small-scale Retail Shops**

Small-scale retail shops include those small shops dealing with miscellaneous products of regular use, and shops selling particular products of different varieties. They hold small stocks and do their business in fixed shops located in residential areas or market places. According to the nature of goods sold, the small retail shops may be divided into three categories as follows:

- 1) **Stalls on streets:** Small shops on the road side are very common in cities and towns. These are set up as stalls in front of large stores or in residential area selling a limited variety of products of regular use like stationery, grocery, toilet products, biscuits, etc. The shops are located within easy reach of consumers' residence or nearby roads or street-crossings, or bus stops. These retailers meet the needs of customers at convenient locations. They supply goods of regular use for which customers are not prepared to go to central markets.
- 2) **General merchandise shops:** These are small retail stores which deal in all types of general consumer goods of regular use including provisions, bread, butter, stationery and toiletry, paper and pencils, cigarettes, matches, etc. The shops are located in thickly inhabited residential areas and busy markets. Consumers find it convenient to buy all their requirements in one shop. Regular buyers are also offered home delivery services and credit facility.
- 3) **Speciality shops:** Small retail shops which deal in only one or two special types of goods are known as speciality shops. The goods dealt with may be only electrical fittings of different kinds, or medicines, or motor parts, or books and stationery, or bread and confectionary items, or ready-made garments, or toys, etc. People often find it convenient to buy their requirements from these shops due to the availability of different grades and sizes in the small product line.

## Large-scale Retail Shops

Large-scale retail shops are so called because they deal in a large variety of goods, and have large volume of business. The types of fixed shops in this category include the following:

- 1) Departmental Stores
- 2) Super Market
- 3) Multiple Shops or Chain Stores
- 4) Franchise Stores
- 5) Mail Order House
- 6) Consumer Co-operative Stores
- 7) Hire Purchase Traders
- 8) Discount Houses
- 9) Super Bazars
- 10) Automatic Vending Machines

We shall now discuss briefly the characteristics of each of these types of retail shops.

### Departmental Stores

A departmental store is a large-scale institution comprising a number of departments, each department specialising in a separate line of products. All these departments are under one roof and one unified control. Department stores offer the widest possible choice of products. The consumer can find all what he needs in one store rather than moving around from shop to shop. These stores are located in central places in big cities so that they are easily accessible to customers. Bigger department stores offer a great number of amenities like restaurants, post and telegraph offices, recreation rooms and car parking. A department store indulges in decentralised buying and centralised selling. In fact, department store is a medium of mass merchandising.

Departmental stores grew up in developed countries mainly to cater to the requirement of well-to-do people who required articles of high quality and looked forward for comfortable shopping. But they have also become popular in urban centres in many developing countries. In India too, we find a number of department stores such as Big Bazar, Spencer's etc.

**Advantages:** Departmental stores have the following advantages:

- 1) Departmental stores make shopping convenient to consumers by providing them a whole range of goods in one building.
- 2) The central location attracts a large number of customers leading to a large turnover. Thus, they can afford to make large profits even with smaller margins.

- 3) Bulk-buying by Departmental stores enables them to obtain heavy discounts from manufacturers, and thus buy at a cheaper rate. There are savings in freight charges as well.
- 4) Departmental stores can afford to have effective advertising through press, radio and television and thus they are able to attract more and more customers.
- 5) Being large business units, departmental stores can afford to employ skilled and expert staff for all their operations and thus they are able to achieve a high degree of efficiency in their working.

**Disadvantages:** Departmental stores suffer from the following limitations:

- 1) Experience has shown that operating costs of departmental stores tend to become very high because of the necessity to run some departments at a loss to attract customers and heavy emphasis in service. As a result, more often, their goods may be marked at higher prices.
- 2) Central location also involves higher rents and thus higher overheads. Central location may not be convenient to persons living in far off places which means that they will make their purchases of articles of everyday use from nearby shops. However, in recent years, departmental stores have branched themselves out to suburban areas as well to reach the customers nearer their location.
- 3) It may not be possible for customers in general to receive personal attention which is possible when they deal with small retailers.

### **Super Markets**

Supermarkets are large, low cost, low margin, high volume, and self service operations designed to serve the customer's need for food, laundry and household maintenance products. Supermarkets lays emphasis on **self-service**, here the products are displayed in such a way that buyers can easily select the products on their own and get them billed at the counter.

Though India is among the world's largest food and grocery market, the traditional small Kirana stores continue to dominate the FMCG retail. However many developments are taking place in this form of retail outlets in India. Supermarket operators like Reliance Fresh, Easyday, DMart and many others are expanding their outlets across the country and attracting customers by maintaining a large variety of all the goods of daily necessity under one roof.

### **Co-operative Stores**

Consumers sometimes join together to form co-operative societies to sell goods on retail basis. The basic purpose is to eliminate middlemen and obtain their requirements at a lower price. The capital is subscribed by the members through the purchase of shares of small denominations. Co-operative stores

purchase their requirements in bulk, from manufacturers or wholesalers. This enables the co-operative stores to sell their products at somewhat lower prices than the ordinary retailers. These stores usually sell on cash basis and thus avoid the loss due to bad debts. Some example of department stores run on co-operative basis are: Central Government Employees consumer Co-operative Stores popularly known as Kendriya Bhandar in Delhi, and TUCS Kamadhenu, and Amudhan in Chennai.

**Advantages:** Co-operative stores have the following advantages:

- 1) Consumers can be sure of the quality of goods in the sense that there is no possibility of an adulteration practiced by some retailers in the private sector.
- 2) These stores are able to offer various products at more reasonable prices than most other retailers.
- 3) Consumers are assured of availability of certain products even when there is an overall shortage in the market and that too at reasonable prices. Retailers usually take advantage of such situations by either increasing prices or earmarking supplies to their favoured customers.

**Disadvantages:** Co-operative stores suffer from the following limitations:

- 1) Consumers do not patronise these stores regularly, coming to these stores only in times of shortages.
- 2) In practice, they have not been able to reap the benefit of bulk purchases from manufacturers.
- 3) Large Co-operative stores tend to suffer from all the drawbacks of bureaucratic management.

### **Multiple Shops or Chain Stores**

The multiple shop system denotes an organisation which controls a number of stores under one common ownership and management. The various stores are located in various cities and in various localities of bigger cities. Multiple shops refer to a group of retail stores dealing in similar types of goods. The basic idea behind the establishment of the multiple shops is to approach the customer in his vicinity unlike department stores which seek to attract customers to a central location. These shops could be operated by manufacturers or by wholesalers with the basic objective of eliminating retailers. Bata Shoes is an example of product for which multiple shops have been opened by manufacturers in India. Some textile mills also have some shops of their own in bigger cities. If wholesalers decide to operate multiple shops, they indulge in centralised buying with decentralised selling. Some of the important features of these shops are:

- 1) Each shop deals in the same type of goods and products.



- 2) The goods dealt are generally those meant for everyday use.
- 3) There is a high degree of standardisation and uniformity in the interior layout of stores, window displays and outward appearance.
- 4) A uniform policy of sales is adopted.

**Advantages:** Multiple shops have the following merits:

- 1) Multiple shops are able to offer lower prices due to the economies of bulk buying.
- 2) As sales are on cash basis, losses on bad debts are eliminated and accounting is also made simpler.
- 3) Rapid turnover and common advertising for all shops make the operation of multiple shops economical.
- 4) Any shortage of goods faced by one branch can be easily made up by transfer from some other branch in the same city.
- 5) Since advertising material and interior layout of each shop is similar, each shop serves to advertise the other shops. This leads to further economy in advertising and a quicker turnover.

**Disadvantages:** Multiple shops suffer from the following limitations:

- 1) Multiple shops cannot offer the variety of choice which department stores or even ordinary retail stores offer.
- 2) These shops do not normally offer home delivery service or credit sales and thus lose a good number of customers.
- 3) Each unit is controlled by the head office and thus branch managers cannot adjust their sales policy to local conditions and emerging opportunities.
- 4) Limitations of bureaucratic organisation usually creep in so that the shop personnel tend to lose initiative.

### **Franchise Store**

A franchise store refers to an organisation which is formed as a result of a contractual agreement, where an independent retailer called **franchisee** enters into an agreement with a producer/manufacturer called **franchisor**. This is formed to use a franchisor's brand name and to sell their products in return for a fee or commission on sales. The Franchisee must adhere to the guidelines of the agreement regarding the mode of operation of the stores. Mostly the franchisee makes investments in terms of premises, interiors and equipments while the stocks and management is done by the franchisor. Companies like Adidas, Raymonds, McDonalds, Subway are examples of franchise store.

**Advantages:** The advantages of Franchise Store are as follows:

## **Distribution**

- 1) It helps the franchisors (producers) to expand their business and reach more customer without incurring additional cost for store set up.
- 2) A franchisee gets the benefits and recognition of a pre-established brand name.
- 3) A franchise gets benefits in the form of training and assistance for management of the store.

**Disadvantages:** The disadvantages of Franchise Store are as follows:

- 1) The Franchisees (retailers) do not have independent control over the business.
- 2) The Franchisor's brand goodwill may suffer if the franchisee does not maintain the standards.

## **Mail-order House**

Retail trading which consists of receiving orders by mail and delivery of goods by parcel post is known as mail-order business. The mail-order house is thus a retail trading organisation which uses the post office or couriers as its channel of distribution. Standard consumer goods with trade marks or brand names are generally dealt with by mail-order houses. This is because customers are to place orders without physically checking the items. Under Traditional methods orders from customers may be secured by advertising in newspapers or journals. Sometimes circular letters are issued by mail to certain categories of customers. Customers are invited to send their orders by post to the address of the mail-order house. Delivery is made by V.P.P. (Value Payable Post). Goods are thus available to the customers on payment of the price which is remitted by the post office to the sender of goods. Now a days, advantage of internet is taken. Knowledge advantage of internet is taken. Retailers provide online catalogues through e-mail, website and social media to sell their products ones and payment from clients are also accepted online.

Mail-order business helps customers to get their requirements at their own place which save the time and expenses of shopping. Goods can be procured according to the order received. Thus, the business can be started with a small amount of capital. A wide market can be covered by means of postal communication.

## **Hire Purchase Trading**

Hire- purchase trading consists of supplying durable goods for use by customers who agree to pay the price by instalment at regular intervals. The buyer acquires ownership of the goods only after the total price has been paid. In other words, in hire-purchase the buyer takes possession of the goods, but does not get the ownership until the last instalment has been paid. The instalments are regarded as hire charges. If there is default in paying an

instalment, the seller has the right to recover the goods or sue the buyer for the balance amount due.

Durable goods like refrigerators, television sets, radio, sewing machines, electric fans, automobiles, industrial machinery, air-conditioners, etc., can be sold by hire-purchase trading houses. The instalments payable by the buyer includes interest on unpaid balance. Hence, the total price paid is relatively higher than in the case of outright cash purchase. But the customers get the advantage of deferred payment, as in the case of purchase on credit, and is also able to use the goods meanwhile. Hence, hire-purchase becomes attractive as a means of saving large initial payment required for outright purchase of goods.

### **Discount Houses**

Large scale retail establishments which offer discounts on the prices are known as discount Houses. Durable goods like household appliances (cooking ovens, electrical gadgets, etc.) camera, binoculars, etc., are generally available through discount houses at a relatively lower price as compared with the price charged by other retail stores. This is possible as the discount houses directly purchase from manufacturers and operate the business on a low margin of profits. They expect to cover expenses and make substantial profits through large volume of sales. Brand factory is a popular example of this type of retail store in India.

### **Super Bazars**

These are large retail stores organised by Co-operative Societies which sell a variety of products under a single roof. The goods traded by Super Bazars include consumer goods which are procured at wholesale rates from manufacturers or wholesalers. The stores are operated either on the principle of self-service or with separate counters served by salesmen. The difference between a Super Bazar and Super Market is that the former is organised by co-operative society whereas the latter is generally established as a private sector organisation. Similarly, the difference between a Consumer Co-operative Store and Super Bazar is that a Consumer Co-operative Store is usually run on small scale, while the Super Bazar may be a large-scale establishment.

### **Automatic Vending Machines**

Retail sale of articles with the help of coin-operated automatic machines is known as automatic vending. Retailing on a large scale is possible in this way by placing machines at convenient locations like bus terminals, railway stations, airports, shopping centres, etc. This method of retail selling is very popular in western countries. Cigarettes, razor blades, postage stamps, milk, ice-cream, soft drinks, soup, paper-back books, newspapers, etc., are sold in cities through vending machines. Customers are required to insert necessary coins in a slot and press a button whereby the article is released

automatically. The coins are collected from the machine periodically, and articles are put in as needed. Automatic vending facilitates buying of small items round the clock. There is no necessity of salesmen's services. However, the stocking capacity of machine is limited and there are risks of mechanical failures irritating the customers. Moreover, paper currency may not be used and coins of exact value are required to operate the machine. In India, automatic vending has been used for selling postage stamps, flight insurance, milk, etc. In Airport, You will find the automatic vending machine for packed eatable, water etc.

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## 12.6 TRENDS IN WHOLESALING AND RETAILING

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Marketing is a dynamic area of Management. As such, with a constantly changing environment of business, various important developments have taken place in almost all the areas of marketing. Some of the important developments have taken place in the field of distribution channels also. These developments not only reflect the trends in respect of major channel participants i.e., wholesalers and retailers but also indicate the future of these intermediaries in the country.

The first major development is the emergence of **Integrated Marketing Systems**. Instead of the conventional distribution system, in which an individual channel member operates independently on the basis of self-interest and without taking interest in what occurs later in the chain. Now the channel participants at different levels have started working in an integrated and coordinated manner. This integration may be either vertical or horizontal. Vertical integration refers to coordination between channel participants at different levels. For example, coordination between manufacturers and wholesalers, between wholesalers and retailers. Such coordination may be organised on a corporate, contractual or administered basis. The objective of such integration is to achieve operating economies and increased market impact. Horizontal integration on the other hand, refers to alignment of two or more firms at the same level of channel participation to jointly exploit a marketing opportunity. This integration may be at the level of manufacturers or wholesalers or even retailers. For example, in India, cement manufacturing companies have formed an 'Associated Cement Company' so as to channelise their produce to the market. Similarly, tyre manufacturers have built up a guild through which the prices, etc., of the tyres were being fixed jointly. This tendency of integrated marketing is likely to grow in the coming years.

Secondly, more number of firms are adopting direct marketing techniques for selling their products. This is particularly so in the case of distribution of consumer durable products. This is being done to ensure great control over the market and to bring economy in the cost of distribution.

Thirdly, in the field of retailing, two important developments are the opening of self service outlets, and the increased use of automatic vending machines. The super bazaars and departmental stores, particularly those selling grocery items have almost become common in big cities and towns. Similarly, the automatic vending machines which of late were used for the distribution of milk have now been used by banks for the purpose of withdrawal of cash. As a result, the role of personal selling has slightly decreased while the role of branding and packaging has tremendously increased.

### Check Your Progress C

- 1) How is a retailer different from a wholesaler?
- 2) Differentiate between Departmental Store and Multiple Shop.
- 3) Differentiate between a Consumer Co-operative Store and Super Bazar.
- 4) State whether the following statements are **True** or **False**.
  - i) Retailers always buy goods from manufacturers.
  - ii) Retailers also sell goods to other retailers.
  - iii) Super Markets normally deal with consumer durables.
  - iv) Retail traders who move from place to place are called itinerant retailers.
  - v) Super Bazar is a retail shop organised by a Co-operative Society.
  - vi) Consumer Co-operatives are run on no-profit no-loss basis.

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## 12.7 LET US SUM UP

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Intermediaries play a significant role in the distribution of goods and services. They create a number of utilities, bring in economy of effort, make shopping convenient for the buyers and help in regulating demand for the products. There are two broad categories of intermediaries — primary and ancillary. The primary participants are those who undertake the negotiatory functions of selling and transferring of title of goods. The ancillary participants such as financial institutions, public warehouses, etc., on other hand, assist the channel members (primary participants) in performing the distribution task. The primary participants may again be divided into two categories: 1) merchant middlemen (retailers and wholesalers) and 2) merchant agents (brokers, commission agents, del credere agents, auctioneers, etc.).

Wholesalers defined as merchant middlemen who are engaged in buying and reselling of goods to retailers, other merchants, industrial and commercial users, but not consumers. Wholesalers may be classified on the basis of merchandise dealt with, methods of operation, and geographical coverage of their dealings. The functions performed by wholesalers include: assembling,

storage, grading and packaging, transportation, financing retail traders, price-fixation, risk-bearing and making advances to manufacturers. Wholesalers render valuable services to manufacturers as well as retail traders.

A retailer is one whose business consists of primarily selling goods to customers for their own use, not for use in their business. If manufacturers sell goods to consumers, they are not treated as retailers as retailing is not the major activity of a manufacturer. The retailers perform several functions such as estimating demand, procuring goods, arranging transport, holding stocks, grading and packaging, and selling. They render valuable service to consumers, wholesalers and indirectly also to the producers of goods.

Retailers may be divided into two broad categories: itinerant retailers and fixed-shop retailers. Itinerant retailers (hawkers, pedlars, pavement traders, and market traders) either move from house to house or change their place of business according to convenience. Fixed-shop retailers locate their stores at fixed places where customers can easily come and make their purchases. Fixed shop retail trading may consist of two types: 1) Small-scale retailing (stall-holders, general merchandise shops, speciality shops, and second-hand goods sellers) who deal in a limited range of products or 2) Large-scale retail stores (departmental stores, super markets, multiple shops, mail-order houses, consumer co-operative stores, super-bazars, hire-purchase trading, discount-houses, and automatic vending) which deal in and stock a wide range of products.

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## **12.8 KEY WORDS**

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**Ancillary Participants:** Group of individuals and organisations which do not perform the negotiatory functions of selling and transferring title of products but assist the primary participants in performing the distribution tasks.

**Auctioneer:** A middlemen appointed as an agent to sell goods by auction.

**Automatic Vending:** Sale of small articles of regular use by installing coin-operated automatic machines at different places.

**Broker :** A middlemen who brings together the buyer and seller, and negotiates the terms and conditions of sale on behalf of either buyer or seller.

**Commission Agent:** A middlemen who sells goods on commission basis on behalf of the owner.

**Consumer Co-operative Stores:** Retail stores run by co-operative societies organised in the interest of consumer groups.

**Del Credere Agent:** An agent middleman authorised to sell goods on credit and who assumes the risk of bad debts,

**Departmental Stores:** Large retail stores consisting of separate departments selling different types of products.

**Discount Houses:** Retail stores engaged in selling durable consumer goods at a discount.

**Factor:** A mercantile agent who keeps the goods of other for sale. He can in his own name, pledge and do all acts necessary for sale.

**Hire Purchase Trading:** Supply of durable goods on hire against the payment of periodical instalments with ownership transferred to the buyer, after all instalments have been paid.

**Itinerant Retailers:** Retail traders who sell goods moving from house to house or change their place of business frequently.

**Mail-Order House:** Receiving orders by mail and delivering goods through Post office or courier.

**Mercantile Agent:** A functional Middleman who undertakes specific functions of sale or purchase of goods as agent of the owner without having ownership right.

**Merchant Middleman:** A middleman such as wholesaler or retailer who buys and sells goods in his own name and performs necessary functions in that connection.

**Middleman:** An intermediary between the producer and the consumer to help distribution of goods.

**Multiple Shops/Chain Stores:** Retail stores under the ownership and management of a single firm dealing in similar products at uniform prices and located at different places.

**Primary Participants:** Group of individuals and organisations undertaking to perform the negotiatory functions of selling and transferring title of the products.

**Retailer:** One who is engaged in retail trading.

**Retailing:** Purchasing goods from wholesalers or manufacturers and selling them the consumers for their personal non-business use.

**Speciality Shops:** Small retail shops dealing in one or two special types of goods.

**Super Markets:** Retail stores selling consumer goods of regular use and operating on self-service basis.

**Wholesaler:** One who is engaged in wholesale trading.

**Wholesaling:** Purchasing and reselling of goods to retailers and merchants.

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## 12.9 ANSWERS TO CHECK YOUR PROGRESS

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- A 4 i) False      ii) False      iii) True      iv) True      v) False  
     i) True
- B 3 i) True      ii) True      iii) False      iv) True      v) False
- C 4 i) False      ii) False      iii) False      iv) True v) True vi) True

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## 12.10 TERMINAL QUESTIONS

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- 1) What role do intermediaries play in the distribution of products? Can intermediaries be eliminated?
- 2) What do you understand by retailing? What important functions do the retailers perform in the distribution of products.
- 3) What do you understand by wholesaling? How does it differ from retailing ?
- 4) Compare the advantages and disadvantages of departmental stores and chain stores.
- 5) Write notes on the following:
  - a) Itinerant Retailers
  - b) Ancillary Participants
  - c) Consumer Co-operative Store
  - d) Merchant Agents
  - e) Franchise Stores
- 6) Describe the services rendered by wholesalers and retailers to different sections of society.
- 7) Explain briefly about various types of middlemen.

**Note:** These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.



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## **UNIT 13 PHYSICAL DISTRIBUTION**

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### **Structure**

- 13.0 Objectives
- 13.1 Introduction
- 13.2 Meaning and Importance
- 13.3 Total System Approach
- 13.4 Total Cost Approach
- 13.5 Objectives of Physical Distribution
- 13.6 Physical Distribution Tasks
  - 13.6.1 Order Processing
  - 13.6.2 Warehousing
  - 13.6.3 Inventory Control
  - 13.6.4 Transportation
  - 13.6.5 Information Monitoring
- 13.7 Let Us Sum Up
- 13.8 Key Words
- 13.9 Answers to Check Your Progress
- 13.10 Terminal Questions

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### **13.0 OBJECTIVES**

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After studying this unit, you should be able to:

- explain the concept and role of physical distribution;
- describe the total systems approach and total cost approach to physical distribution;
- discuss the major objectives of physical distribution; and
- describe the major elements of physical distribution system.

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### **13.1 INTRODUCTION**

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In the preceding two units, various aspects relating to development of channels of distribution (or a network of merchants and agent business institutions) for the flow of goods and services, from the point of production to the point of use, have been discussed. The entire process of setting up and operating contractual organisation responsible for meeting the firm's distribution objectives have been explained. However, nothing actually happens in marketing unless the goods are physically moved from the point of their origin to the point of their consumption. The present unit focuses on

various aspects relating to the physical distribution of a product. It describes the role, objectives and the tasks involved in the process of physical distribution of products and services.

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## 13.2 MEANING AND IMPORTANCE

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No matter how good the product of a firm may be, if it does not reach the users or consumers at the right time and place and in the best physical state, a great deal of effort would go waste. For that, it is important to ensure mobility of goods.

From the point of view of management, physical distribution has been described by Philip Kotler as *“planning, implementing and controlling the process of physical flow of materials and final products, from point of origin to point of use, to meet customer’s ofneeds at a profit”*.

In the opinion of W.Y. Stewart *“physical distribution is the science of business logistics whereby the proper amount of the right kind of product is made available at the place where demand exists, viewed in this light, physical distribution is the key link between manufacturing and utility creation.”* As stated by Cundiff and Still, *“physical distribution involves the actual movement and storage of goods after they are produced and before they are consumed”*.

Note that while Stewart's definition emphasises the important contributions of physical distribution, the definition by Cuondiff and Still rather limits the scope of physical distribution to finished goods only. The physical distribution of raw material or semi-finished products is almost ignored in the description.

**Thus, in the context of marketing, physical distribution may be defined as the activities involved in the flow of products as they move physically from producer to consumer or industrial user.**

The process of physical distribution involves handling and movement of products from the point of production to the point of consumption or use. **The important activities involved in this process include: order handling, information processing, inventory control, storage and transportation.** Thus, the major elements of physical distribution may be listed as follows:

- Transportation
- Inventory Maintenance
- Order Processing
- Acquisition
- Protective Packaging
- Warehousing
- Materials Handling

- Information Maintenance

Look at Figure 13.1 carefully for physical distribution logistics system.

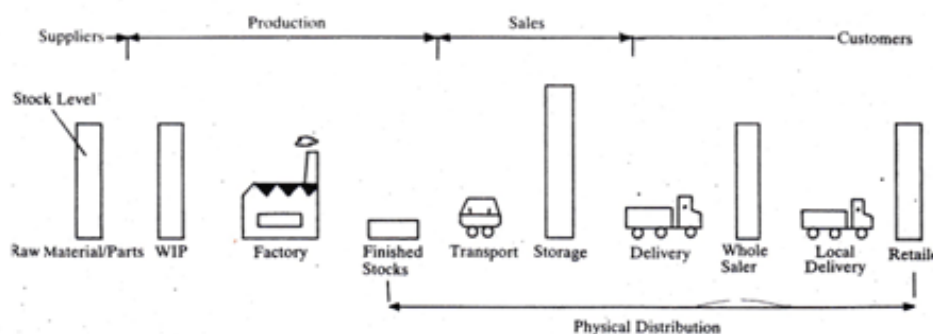


Figure 13.1 Physical Distribution Logistics System

Figure 13.1 : Physical Distribution Logistics System

(Source: Phos van Ansel M.J. Physical Distribution Cost Control, International Journal of Physical Distribution and Materials Management)

An effective physical distribution system contributes immensely to the achievement of marketing objectives of a firm. It creates time and place utilities in the products and thereby helps in maximising the value satisfaction to consumers. By ensuring quick deliveries in minimum time and cost, it relieves the customers of holding excess inventories. It also brings down the cost of carrying inventory, material handling, transportation and other related activities of distribution. **In a nutshell, an efficient system of physical distribution has a great potential for improving customer service and reducing costs.**

The area of physical distribution has received considerable attention in the recent years. It is because of the traditional short supply nature of market in our country, which often witnessed gaps between the demand and the availability of the products. Prices of essential commodities of daily consumption are particularly amenable to any dislocation in the physical distribution. This is evident from the concerns and anxieties with news of strike in rail and road transport. The port strike in 1989 is further indicative of the importance that physical distribution has gained over the years.

### 13.3 TOTAL SYSTEM APPROACH

As stated earlier, physical distribution involves the physical flow of goods. From this we can imply that **the physical distribution management is the development and operation of efficient flow of systems for products.**

The most commonly stated objectives of the physical distribution management in a firm are to minimise the cost of distribution and maximise the services provided to the customers. But actually it is not possible to

simultaneously maximise customer service and minimise the distribution cost. Maximum customer service implies large inventories, faster transportation and best possible warehousing services. All of this would add to the cost of distribution. On the other hand, minimising the cost of distribution would mean using cheaper and slower transport, fewer warehouse and keeping lower level of inventories. This would of course bring down the cost of distribution but at the same time bring down the level of customer service also. Thus, the firms have to strike a balance between these two aspects, To do that, they first set the level upto which they would extend service to the customers. This in turn determines the cost of physical distribution. Let us also have a look at the components of distribution task.

The task of distribution in any marketing organisation consists of the following major elements:

- 1) Transportation
- 2) Warehousing
- 3) Inventory carrying and handling
- 4) Interest on capital employed

The traditional approach of management treats all these components as independent of each other. In other words, the decision regarding say, transportation can be taken independently of the decision regarding inventory or storage. Thus, according to this approach, the cost of distribution can be minimised by keeping the cost of each of these elements at a minimum level.

However, a closer examination of the situation reveals that the costs of each of these elements described above cannot be minimised without affecting the other elements as these activities often have conflicting and even diametrically opposite goals. For example, use of rail transport over air transport would reduce the total cost of transportation of the goods. But, as rail transport is relatively slow, the cost incurred on other elements such as inventory carrying cost, interest on capital employed, etc., would increase. This, in turn affects the level of customer service. Thus, **it may be stated that different physical distribution activities are interrelated. A decision in respect of one activity cannot be taken in isolation of the other activities. So decisions with regard to physical distribution activities should be based on a total systems approach.**

The systems approach is a scientific way of management. It looks at the physical distribution in its total form as a system consisting of several interconnected tasks or parts operating together to achieve the given objectives. Thus, the systems approach of physical distribution, envisages integration of all the components of physical distribution as parts of a whole whose market impact is maximum when they operate in synergy. In other words, it is looking at managing the distribution activities as an integrated

exercise in which decisions in respect of different components are taken not in isolation of one another but as a whole.

### Check Your Progress A

- 1) What is the systems approach to physical distribution?
- 2) What is physical distribution in the context of marketing ?
- 3) List out the major subsystems of the total system of physical distribution of a firm.

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## 13.4 TOTAL COST APPROACH

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The growing costs of physical distribution have forced marketers to study the structure of physical distribution costs within the company and control them to increase the cost effectiveness. Added to the growing costs is the service function to be performed by distribution logistics. As you know, physical distribution seeks to minimise total costs of distribution at a given level of customer service. In a competitive market where substitutes are available to customers, a major advantage can be gained if distribution costs are reduced while maintaining the required service levels.

The total cost of distribution consists of the costs of various elements such as costs of storage, inventory maintenance, transportation, etc. The total cost approach is a corollary of the systems approach. Total cost approach envisages the use of total cost (and not the cost of each individual component) while choosing the alternative course of action in respect of physical distribution of the products. In case total cost is not analysed, there is every likelihood of taking a wrong decision. This is explained with the help of an illustration presented in Table 13.1.

**Table 13.1: Physical Distribution Costs under Alternative Approaches**

Physical Distribution Costs	Alternative A	Alternative B
Interest on working capital employed in inventory	100	150 (15 days)
Transportation cost	230	200
Warehousing cost	100	130
Total Cost	430	480

As shown in Table 13.1, if the decision regarding choice of the mode of transportation is taken independent of the other components of cost, rail transport (Alternative B) would be selected, as the cost in this case is Rs. 200,

as compared to the road transport (Alternative A) where it is Rs. 230. But if we prefer rail transport, the cost of other components (interest cost and warehousing cost) increases. We can see from the table that the total cost in case of Alternative A is lower than that of Alternative B. Thus, if the total cost is taken into consideration, Alternative A will be selected as it is less expensive

From this illustration it is clear that a reduction in the cost of one component may be possible at the expense of the other element. If the transportation cost is reduced, the cost of warehousing and inventory goes up. Therefore, in any attempt to improve the physical distribution efficiency and reduce cost, the total cost of performing the physical distribution function should be taken into account. Management should think in terms of trade off in reducing alternative costs so as to maximise profits. By doing this, the firm can maximise potential profit.

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### **13.5 OBJECTIVES OF PHYSICAL DISTRIBUTION**

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Determining the objectives is the first step in managing an activity in a planned and systematic way. It is so because the objectives serve as a guiding force for chalking out the strategy for the successful completion of the task. In the area of physical distribution too, the strategy will depend upon the objectives sought to be achieved in this regard. Thus, it is important for the firm to specify the major objectives of the physical distribution system.

The objective of any physical distribution system is to move the goods to the right place at the right time, and at the lowest cost. Thus, customer service and cost reduction are the two basic objectives of an effective distribution system in an organisation. However, there may be some more specific objectives in a given marketing situation. Some such objectives are described in detail below:

**Improving Customer Service :** As you know, the marketing concept assumes that the sure way to maximise profits in the long run is through maximising the customer satisfaction. Thus, an important objective of all marketing efforts, including the physical distribution activities, is to improve the customer service. This in turn, produces better sales and profits.

An efficient management of physical distribution helps to improve the level of customer service by developing an effective system of warehousing, quick and economic transportation and optimum level of inventory. But as discussed earlier, the level of service directly affects the cost of physical distribution. Therefore, while deciding the level of service, a careful analysis of the customers' wants and the policies of the competitors is necessary. The customers may be interested in several things like timely delivery, careful handling of merchandise, reliability of

inventory, economy in operations and so on. But the relative importance of these factors in the minds of customers may vary. Thus, an effort should be made to know whether they value timely delivery or economy in transportation, and so on. Once the relative weights are known, an analysis of what the competitors are offering in this regard should be made. This together with an estimate about the cost of providing a particular level of customer service would help in deciding the level of customer service.

**Reduce Distribution Costs :** Another most commonly stated objective is to reduce the cost of physical distribution of the products. It has already been explained that the cost of physical distribution consists of various elements such as transportation, warehousing and inventory maintenance, and a reduction in the cost of one of the elements may result in an increase in the cost of the other elements. Thus, the objective of the firm, should be to reduce the total cost of distribution and not just the cost incurred on any one element. For this purpose, the total cost of alternative distribution systems should be analysed and the one which has the minimum total distribution cost should be selected.

The cost of distribution is also related to the level of customer service offered by a firm. The higher the level of service offered, the greater would be the cost of distribution. Thus, the objective of the firm may be to minimise the total distribution cost to achieve a target level of customer service. In other words, cost minimisation is related to the level of customer service set by the company.

**Generating Additional Sale :** Another important objective of the physical distribution system in a firm is to generate additional sales. A firm can attract additional customers by offering better services at lower prices through improvements in the physical distribution of the products. For example, by decentralising its warehousing operations or by using economic and efficient modes of transportation, a firm can achieve larger market share. Also by arresting the out-of-stock situation, the loss of loyal customers can be arrested.

**Creating Time and Place Utilities:** The physical distribution system also aims at creating time and place utilities in the products. Unless the products are physically moved from the place of their origin to the place where they are required for consumption, they do not serve any purpose to the users. Similarly, the products have to be made available at the time they are needed for consumption. Both these purposes can be achieved through the physical distribution system. For example, in order to create maximum time and place values, the products should be kept in warehouse during the period they are available in excess till they are in short supply. For this the warehouse should be located at places from where they can be delivered and sufficient stocks levels should be

maintained so as to meet the emergency demands of the customers quickly.

A quicker mode of transport should be selected to move the products from one place to the other in a short time. Thus, time and place utilities can be created in the products through an efficient system of physical distribution.

**Price Stabilisation:** Physical distribution may also aim at achieving stabilisation in the prices of the products. It can be achieved by regulating the flow of the products to the market through a judicious use of available transport facilities and compatible warehouse operations. For example, in the case of Industries such as cotton textile industry using agricultural products as raw material, there will be fluctuations in the supply of raw materials. In such cases if the market forces are allowed to operate freely, the raw material would be very cheap during harvesting season and very dear during off season. This fluctuation may be stabilised by keeping such raw material in warehouses during the period of excess supply (harvest season) available during the periods of short supply. Thus, prices can be stabilised with the help of physical distribution activities.

### **Check Your Progress B**

- 1) What is total cost approach in physical distribution system?
- 2) What are the main objectives of physical distribution in a firm?
- 3) State whether the following statements are **True** or **False**.
  - i) In total cost approach of physical distribution system, the cost of each element is considered in isolation.
  - ii) Total cost approach envisages the use of total cost while choosing the alternative courses of action in respect of physical distribution.
  - iii) Efficient customer service is the only objective of physical distribution system.
  - iv) Effective physical distribution system can bring stability in price
  - v) Physical distribution system creates time and place utilities in products.

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## **13.6 PHYSICAL DISTRIBUTION TASKS**

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The important decisions in respect of physical distribution are: i) how should be order handled? ii) where should the stock be located? iii) how much should stock be kept on hand? and iv) how should goods be transported? In fact, as shown in Figure 13.2, these aspects constitute the major components of the physical distribution system.



Let us discuss about the components in detail.

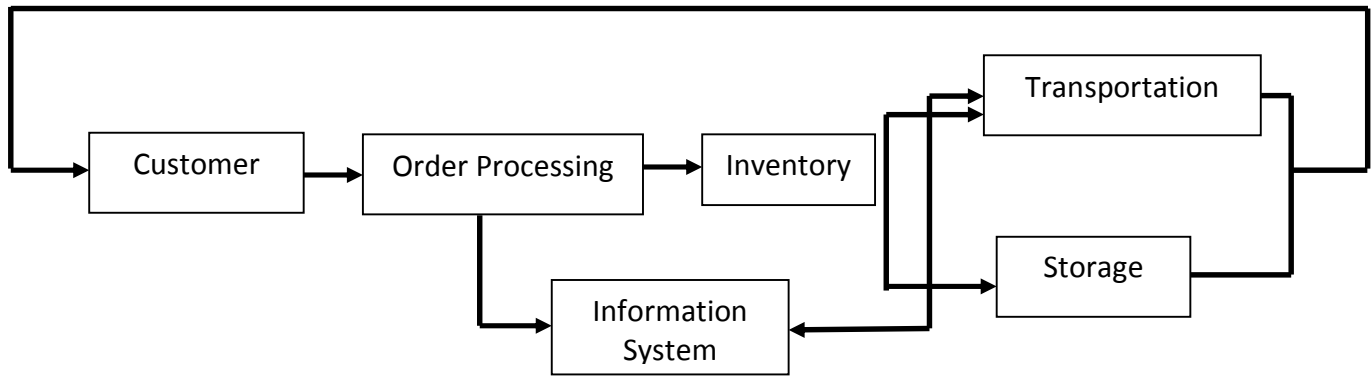


Figure 13.2 Major Tasks of Physical Distribution System

(Source: Mandell M. I and Rosenberg L.J. Marketing, 2nd Ed., Pg. 424)

### 13.6.1 Order Processing

The starting point of the physical distribution activities is the processing of customers orders. In order to provide quicker customer service, the orders received from customers should be processed within the least possible time. Order processing includes: receiving the order, recording the order, filling the order, and assembling all such orders for transportation. The company and the customers benefit when these steps are carried out quickly and accurately. The error committed at this stage at times can prove to be very costly. For example, if a wrong product or the same product with different specifications is supplied to the customer, it may lead to cancellation of the original order (apart from loss in the credibility of the firm). Similarly, if the order is not executed within a reasonable time, it may lead to serious consequences. High speed orders, data processing techniques are now available which allow for rapid processing of the orders.

### 13.6.2 Warehousing

**Warehousing refers to the act of storing and assorting products in order to create time utility in them.** The basic purpose of the warehousing activity is to arrange placement of goods, provide storage facility to store them, consolidate them with other similar products, divide them into smaller quantities and build up assortment of products. Some of the important decision areas in respect of warehousing are:

- how many warehouses should the firm have?
- where should these warehouses be located?
- what should be the pattern of ownership of the warehouse (owned or rented) ?

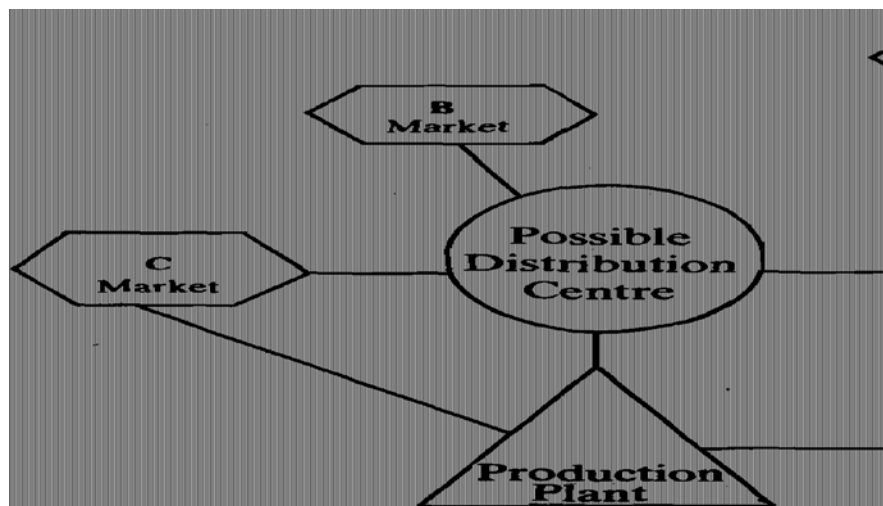
Generally larger the number of warehouses a firm has, the lesser would be the time taken in serving customers at different locations, but greater would

be the cost of warehousing. Thus, the firm has to strike a balance between the cost of warehousing and the customer service.

For products requiring long-term storage (such as agricultural products or products in limited demand), the warehouses are located near production sites. This helps in minimising the charges on transportation of the goods. On the other hand, the products which gain weight during production and are bulky, hard for shipment (machinery, automobiles), and perishable in nature (bakery, meat, vegetables, etc.) are kept at different locations near the markets. However, the factors which influence the location of warehouses may be listed as below:

- Product type
- Transportation cost
- Proximity to markets
- Rent
- Labour Supply
- Taxes
- Geography
- Competition,

Look at Figure 13.3 carefully for a schematic representation of the problem of the location of warehouses.



**Figure 13.3 : Representation of the Warehouse Location Problem**

As regards to ownership of the warehouses, the important factors determining the choice are the amount of money the firm wants to spend on storage and the extent of control it wishes to retain over its goods. The Warehouses may be Public warehouses and Private warehouses. The Private warehouses may be owned or Leased. Public warehouse is generally cheaper but the user has little say about warehouse operations. Own warehousing is better for those firms

which have financial resources and use full capacity throughout the year. To avoid capital investment on construction, the firm can lease in some warehouse depending on its requirement. Some of the other criteria used for deciding between public and private warehouses is given in Table 13.2.

**Table 13.2. Decision Variables in Choosing among Types of Warehouse**

Decision Variables	Type of Warehousing Arrangements			
	Private		Public	
	Owned	Leased		
1) Fixed Investment	Very High	Moderate, depends on the lease's terms	No fixed investment is involved	
2) Unit cost	High, if volume is low	High, if volume is low	Low, since rates are on the basis of space used and fixed costs are widely distributed among users.	
3) Control	High	High	Low managerial control	
4) Adequacy to product line	Highly adequate	Moderately Adequate	May not be convenient	
5) Flexibility	Low	Low	High; termination of usage can be easily arranged	

Depending upon the nature of the products stored and the services rendered, warehouses may be classified as follows:

- **General merchandise warehouse:** It handles a wide variety of goods.
- **Speciality warehouse:** It handles a limited line of goods (e.g., hardware) or it specialises in commodities difficult to store (e.g., grain, cotton).
- **Refrigerated warehouse:** It handles perishable products like milk, fruits, vegetable etc., which require cold storage.

- **Bonded warehouse:** It is insured against loss as well as regulated by certain laws in the case of liquor.
- **Bulk storage warehouse:** It handles liquids such as gasoline, petroleum, oil extracts etc., among other products.

### 13.6.3 Inventory Control

Linked to warehousing decisions are the inventory decisions which hold key to success of physical distribution especially where the inventory costs may go as high as 30-40 per cent (e.g. Steel and Automobiles). No wonder, therefore, that the new concept of Just-in-Time-Inventory decision is increasingly becoming popular with a number of companies.

The decision regarding level of inventory involves estimation of demand for the product. A correct estimate of the demand helps to hold proper inventory level and control the inventory costs. This not only helps the firm in terms of the cost of inventory and supply to customers in time but also to maintain production at a consistent level. The major factors determining the inventory levels are:

- The firm's policy regarding the customer service level.
- Degree of accuracy of the sales forecasts.
- Responsiveness of the distribution system i.e., ability of the system to transmit inventory needs back in the factory and get the products in the market.
- The cost of inventory which consists of holding cost (such as cost of warehousing, tied up capital and obsolescence) and replenishment cost (including the manufacturing cost).

### 13.6.4 Transportation

Transportation facilitates to move goods from points of production and sale to consumption in the quantities required at times needed and at a reasonable cost. The transportation system adds time and place utilities to the goods handled and thus, increases their economic value. To achieve these goals, transportation facilities must be adequate, regular, dependable and equitable in the costs and benefits of the facilities and service provided.

Often called carriers, transportation agents are classified by method of movement. These are: roads, railroads, airways, shipways and pipelines.

#### **Road Transportation**

Road transport is characterised by the ability to move small shipments economically, to move shipments of varying sizes, short distances, and to deliver shipments to any point in the country that is served by roads and highways.

Road carriers of goods for the market are commonly classified into three

types:

- Common Carriers
- Contract Carriers
- Private Carriers.

**Common Carriers:** They serve the public at large, moving goods of all types to any part of the country. In practice, however, certain carriers restrict their operations to the handling of one line of goods or closely related lines.

**Contract Carriers:** These operators enter into rather formal arrangement to transport goods for selected customers which is usually for definite period of time.

**Private Carriers:** These are operated by business firms and individuals for transportation of their own goods. Often, they are also let out to have a better return.

Truck is the main vehicle used for road transportation of nearly all kinds of goods, particularly manufactured products such as textiles, machinery and rubber and plastic products. Trucks dominate in the movement of household goods and small packages. However, now a variety of LCVs, auto carriers and articulated trucks too are used.

### **Rail Transportation**

The main advantage of railways is their ability to handle heavy bulk products and to interchange cars with other roads without generating additional paperwork for shippers.

Some of the special services provided by railways are:

- Unitised Train
- Piggy-back Service
- Containerisation

**Unitised Train:** It consists of 100 or more cars carrying commodities like coal on a shuttle basis between mines and a utility company. The use of modern loading and unloading facilities, full time operation of the train and avoidance of switching at yards allow excellent service at substantial cost savings. In recent years, unitised trains have been used for transporting grains, iron ore, and other commodities too and their use continues to grow. Computerised loading and unloading too exists between major power plants and collieries (Korba for instance).

**Piggy-back Service:** It is also known as 'Trailer-on-floatcar' service. Piggy-back refers to the hauling of loaded truck trailers over railroad lines on specially designed flat cars. Shippers fighting higher transportation costs have shown an increasing interest in this mode of transport because it affords substantial savings in freight handling. Since, it costs less per mile to

transport a trailer on a flat rail car than over the road, lower rates can be charged. Further advantages include less damages while enroute and reduction in delivery time. Piggy-back service is also available on waterways where loaded vans/trailers are moved by steamers/ships between designated points.

**Containerisation:** It refers to the design and use of filled van or, trailer-size container, which may be moved interchangeably between various types of carriers without breaking bulk. For example, a container may be moved from truck to rail, or from truck to ship, thus reducing the handling charges, damages, losses, and pilferage as well as speeding up the movement of shipments.

### **Air Transportation**

In recent years, significant growth has taken place in the transportation of freight by air, although total air-freight volume is still small as compared to movement by railroads and roadways. The primary advantage of air shipment of course, is the speed with which the traffic moves between air terminals. But, the main disadvantage of air-freight has been its higher costs.

### **Pipe-line Transportation**

Most pipe-lines are used to transport liquid petroleum products. Natural gas, chemicals, coal, minerals, pulp, wood chips and for other non-liquid products also pipelines are extremely economical mode of transport.

The relative importance of transportation types can be measured in 'tons originated' or 'ton miles'.

**Tons originated** means 'total amount loaded' and includes both inter and intracity movements.

**Ton miles** means 'one ton moved one km'.

There are several factors that influence the choice of transportation. The following of them merit our attention:

- **Services:** transit privilege, reconsignment, containerisation.
- **Availability.**
- **Flexibility:** Cost, routing, speed, handling.

### **13.6.5 Information Monitoring**

The physical distribution managers continuously need up-to-date information about inventory, transportation and warehousing. For example, in respect of inventory information about present stock position at each location, future commitment and replenishment capabilities are constantly required. Similarly, before choosing a carrier, information about the availability of various modes of transport, their costs, services and suitability for a particular

product, etc., is required. About warehousing, information with respect to space utilisation, work schedules, unit load performance etc., is required.

In order to receive all the information stated above, an efficient management information system would be of immense use in controlling costs, improving services and determining the overall effectiveness of distribution. Of course, it is difficult to correctly assess the cost of physical distribution operations. But if correct information is available it can be analysed systematically and a great deal of saving can be ensured.

### **Check Your Progress C**

- 1) List the major tasks of physical distribution.
- 2) Distinguish between warehousing and inventory control in physical distribution.
- 3) What is information monitoring in physical distribution?

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## **13.7 LET US SUM UP**

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Physical distribution refers to the activities involved in handling and moving goods from the point of production to the point of use. An effective system of physical distribution greatly helps a firm in achieving its marketing objectives. Apart from creating time and place utilities in the product, it relieves the customers of holding excess inventories and helps in bringing down the cost of carrying inventory, transportation and other related costs.

The cost of physical distribution consists of four important elements, viz., transportation, warehousing, inventory carrying and interest on capital employed. The systems approach to physical distribution envisages integration of all the physical distribution components as parts of a whole system whose market impact is maximum when operated in synergy. The cost approach to physical distribution is a corollary to the systems approach. The cost approach envisages the use of total cost and not the individual cost of each of the components while choosing the alternative course of action in respect of physical distribution of the products.

The broader objective of any physical distribution system is to move the right goods to right place at right time at the lowest cost possible. Some of the specific objectives in a given marketing situation, however, include improving customer service, reducing the distribution costs, generating additional sales, creating time and place utility and stabilising the prices of the products.

The five important components of an effective physical distribution system are: 1) order processing, 2) inventories, 3) warehousing, 4) transportation, and 5) information system. Order processing includes receiving, recording, filling and assembling order for transportation to the customer. The customer and the firm benefits when steps are taken quickly and accurately. Warehousing

is the act of storing and sorting products in order to create time utility in them. The important decision areas in respect of warehousing are determining the i) number of warehouses a firm should have, ii) the location of the warehouses, and iii) whether the firm should own warehouses or use the public warehouses. A decision regarding inventory is based on primarily the prediction about the demand for the product. A correct prediction in this regard helps in minimising the cost of inventory.

As regards transportation, the firm has to constantly evaluate the different alternatives available. Basically the decision has to be between the different modes of transportation like rail, road, water and air. A systematic management information system is necessary to ensure a continuous flow of data on all the components of physical distribution system.

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### 13.8 KEY WORDS

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**Physical Distribution:** Activities involved in handling and moving goods from the point of production to the point of consumption.

**Total Cost Approach:** Optimization of the overall cost-customer service relationship of the entire physical distribution system.

**Total Systems Approach:** Looking at and managing physical distribution activity as an integrated exercise where decisions in respect of different components are taken not in isolation of one another but as a whole.

**Warehousing:** The act of storing and assorting products in order to create time utility in them.

**Order Processing:** It includes receiving the order, filling the order, and assembling all such orders for transportation.

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### 13.9 ANSWERS TO CHECK YOUR PROGRESS

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B 3 i) False      ii) True      iii) False      iv) True      v) True

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### 13.10 TERMINAL QUESTIONS

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- 1) What is the significance of physical distribution in Marketing Management? Explain its role for a Mumbai based toilet soap manufacturer producing several national brands.
- 2) Customer service and cost reduction are the two bench marks of an effective system of physical distribution. Discuss with examples.
- 3) What would be the most likely mode of transportation for the following products and why?
  - i) Soft drinks
  - ii) Coal



- iii) Refrigerator
  - iv) Industrial Plant and Machinery
  - v) Industrial Chemicals
  - vi) Potato chips
- 4) Explain the total systems approach to physical distribution. How is this different from the Total Cost Approach?
- 5) Explain the strategy options available to a firm in warehousing location? What are their relative strengths and Weaknesses?
- 6) What are alternative transport media available to a firm? What are their relative strengths and weaknesses?

**Note:** These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the university for assessment. These are for your practice only.

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## **SOME USEFUL BOOKS**

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Indira Gandhi National Open University, School of Management Studies, 1989, *Marketing for Managers MS-6*, Indira Gandhi National Open University: New Delhi (Unit 18).

Kotler, Philip., and Gary Armstrong. 1987. *Marketing - An Introduction*, Prentice Hall: Englewood Cliffs. (Chapters 13 and 14).

Neelamegham, S. 1988. *Marketing in India - Cases and Readings*, Vikas Publishing House: New Delhi, (Chapters 46-50).

Sherlekar, S.A. 1984. *Marketing Management*, Himalaya Publishing: New Delhi.(Chapters 19-21).

Stanton, William J., and Charles Futrell. 1987. *Fundamentals of Marketing*, McGraw-Hill: New York. (Chapters 14-17).

## Distribution