❖ Types of Distribution Channels & the Strategies at each Level

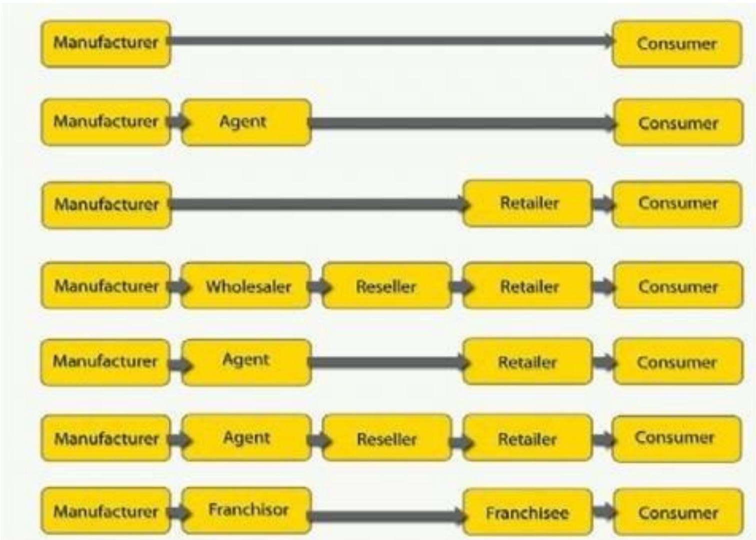

Figure: Types of Distribution Channels

Channels of distribution can be divided into the direct channel and the indirect channels. Indirect channels can further be divided into one-level, two-level, and three-level channels based on the number of intermediaries between manufacturers and customers.

1. **Direct Channel or Zero-level Channel (Manufacturer to Customer)**

Direct selling is one of the oldest forms of selling products. It doesn't involve the inclusion of an intermediary and the manufacturer gets in direct contact with the customer at the point of sale. Some examples of direct channels are peddling, brand retail stores, taking orders on the company's website, etc. Direct channels are usually used by manufacturers selling perishable goods, expensive goods, and whose target audience is geographically concentrated. For example, bakers, jewelers, etc.

2. **Indirect Channels (Selling Through Intermediaries)**

When a manufacturer involves a middleman/intermediary to sell its product to the end customer, it is said to be using an indirect channel. Indirect channels can be classified into three types:

- **One-level Channel (Manufacturer to Retailer to Customer):** Retailers buy the product from the manufacturer and then sell it to the customers. One level channel of distribution works best for manufacturers dealing in shopping goods like clothes, shoes, furniture, toys, etc.

- **Two-Level Channel (Manufacturer to Wholesaler to Retailer to Customer):** Wholesalers buy the bulk from the manufacturers, breaks it down into small packages and sells them to retailers who eventually sell it to the end customers. Goods which are durable, standardised and somewhat inexpensive and whose target audience isn't limited to a confined area use two-level channel of distribution.
- **Three-Level Channel (Manufacturer to Agent to Wholesaler to Retailer to Customer):** Three level channel of distribution involves an agent besides the wholesaler and retailer who assists in selling goods. These agents come handy when goods need to move quickly into the market soon after the order is placed. They are given the duty to handle the product distribution of a specified area or district in return of a certain percentage commission. The agents can be categorised into super stockiest and carrying and forwarding agents. Both these agents keep the stock on behalf of the company. Super stockiest buy the stock from manufacturers and sell them to wholesalers and retailers of their area. Whereas, carrying and forwarding agents work on a commission basis and provide their warehouses and shipment expertise for order processing and last mile deliveries. Manufacturers opt for three-level marketing channel when the user base is spread all over the country and the demand of the product is very high.

3. Dual Distribution

When a manufacturer uses more than one marketing channel simultaneously to reach the end user, he is said to be using the dual distribution strategy. They may open their own showrooms to sell the product directly while at the same time use internet marketplaces and other retailers to attract more customers.

A perfect example of goods sold through dual distribution is smartphones.

4. Distribution Channels for Services

Unlike tangible goods, services can't be stored. But this doesn't mean that all the services are always delivered using the direct channels.

With the advent of the internet, online marketplaces, the aggregator business model, and the on-demand business model, even services now use intermediaries to reach to the final customers.

5. **The Internet as a Distribution Channel**

The internet has revolutionised the way manufacturers deliver goods. Other than the traditional direct and indirect channels, manufacturers now use marketplaces like Amazon (Amazon also provides warehouse services for manufacturers' products) and other intermediaries like aggregators (uber, Instacart) to deliver the goods and services. The internet has also resulted in the removal of unnecessary middlemen for products like software which are distributed directly over the internet.

❖ Factors Determining the Choice of Distribution Channels

Selection of the perfect marketing channel is tough. It is among those few strategic decisions which either make or break your company.

Even though direct selling eliminates the intermediary expenses and gives more control in the hands of the manufacturer, it adds up to the internal workload and raises the fulfillment costs. Hence these four factors should be considered before deciding whether to opt for the direct or indirect distribution channel.

	SHORT CHANNELS	LONG CHANNELS
MARKET CHARACTERISTICS	BUSINESS USERS GEOGRAPHICALLY CONCENTRATED EXTENSIVE TECHNICAL KNOWLEDFE AND REGULAR SERVICING REQUIRED LARGE ORDERS	CONSUMERS GEOGRAPHICALLY DISPERSED LITTLE TECHNICAL KNOWLEDFE AND REGULAR SERVICING NOT REQUIRED SMALL ORDERS
PRODUCT CHARACTERISTICS	PERISHABLE COMPLEX EXPENSIVE	DURABLE STANDARDIZED INEXPENSIVE
COMPETITION CHARACTERISTICS	COMPETITOR USES THE DIRECT CHANNELS AND THE MANUFACTURER IS SATISFIED WITH ITS PERFORMANCE OR COMPETITOR USES INDIRECT CHANNELS AND THE MANUFACTURER THINKS CHOOSING THIS CHANNEL WOULD BE MORE BENEFICIAL	COMPETITOR USES THE INDIRECT CHANNELS AND THE MANUFACTURER IS SATISFIED WITH ITS PERFORMANCE OR COMPETITOR USES THE DIRECT CHANNEL AND THE MANUFACTURER THINKS CHOOSING THIS CHANNEL WOULD BE MORE BENEFICIAL
COMPANY CHARACTERISTICS	CHANNEL CONTROL IMPORTANT BROAD PRODUCT LINE MANUFACTURER HAS ADEQUATE RESOURCES TO PERFORM CHANNEL FUNCTIONS	CHANNEL CONTROL NOT IMPORTANT LIMITED PRODUCT LINE MANUFACTURER LACKS ADEQUATE RESOURCES TO PERFORM CHANNEL FUNCTIONS

1. Market Characteristics

This includes the number of customers, their geographical location, buying habits, tastes and capacity and frequency of purchase, etc.

Direct channels suit businesses whose target audience lives in a geographically confined area, who require direct contact with the manufacturer and are not that frequent in repeating purchases.

In cases of customers being geographically dispersed or residing in a different country, manufacturers are suggested to use indirect channels.

The buying patterns of the customers also affect the choice of distribution channels. If customers expect to buy all their necessaries in one place, selling through retailers who use product assortment is preferred. If delivery time is not an issue, if the demand isn't that high, the size of orders is large or if there's a concern of piracy among the customers, direct channels are suited.

If the customer belongs to the consumer market, longer channels may be used whereas shorter channels are used if he belongs to the industrial market.

Understanding consumer behavior is essential for deciding the most effective marketing channel for the business.

2. **Product Characteristics**

Product cost, technicality, perishability and whether they are standardised or custom-made play a major role in selecting the channel of distribution for them.

Perishable goods like fruits, vegetables and dairy products can't afford to use longer channels as they may perish during their transit. Manufacturers of these goods often opt for direct or single level channels of distribution. Whereas, non-perishable goods like soaps, toothpaste, etc. require longer channels as they need to reach customers who reside in areas which are geographically diverse.

If the nature of the product is more technical and the customer may require direct contact with the manufacturer, direct channels are used. Whereas, if the product is fairly easy to use and direct contact makes no difference to the number of sales, longer channels are used.

The per unit value of the product also decides whether the product is sold through a direct channel or through an indirect channel. If the unit value is high like in the case of jewelry, direct or short channels are used, whereas products like detergents whose unit value is low use longer channels of distribution.

3. **Competition Characteristics**

The choice of the marketing channel is also affected by the channel selected by the competitors in the market. Usually, the firms tend to use a similar channel as used by the competitors. But some firms, to stand out and appeal to the consumer, use a different distribution channel than the competitors. For example, when all the smartphones were selling in the retail market, some companies partnered with Amazon and used the scarcity principle to launch their smartphone as Amazon exclusive.

4. Company Characteristics

Financial strength, management expertise, and the desire for control act as important factors while deciding the route the product will take before being available to the end user.

A company having a large amount of funds and good management expertise (people who have sufficient knowledge and expertise of distribution) can create the distribution channels of its own but a company with low financial stability and management expertise has to rely on third-party distributors.

The companies who want to have tight control over the distribution prefer direct channels. Whereas, those companies to whom such control doesn’t matter or those who are just interested in the sales of their products prefer indirect channels.