

MBA- I semester, Paper- Marketing Management, MB 105, TOPIC- Channel of Distribution Decision and Factors Affecting it.

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There are direct channels and indirect channels, short channel as well as long channels. We also learnt that the different channels are used for different types of products. When there are alternatives available, the selection of an appropriate channel becomes a very important decision for the producers. The choice of channel for distribution of any product should be such that it effectively meets the need of customers in different markets at reasonable cost. The following factors generally influence the choice of the channel of distribution:

- 1 Distribution policy
- 2 Characteristics of the product
- 3 The target customers in view
- 4 Supply characteristics
- 5 Types of middlemen in the field
- 6 Channel competition
- 7 Potential volume of sales
- 8 Costs of distribution
- 9 Profits expected in the long-run.

1. Distribution policy: Where the manufacturer is interested in distributing his products through all possible outlets, it is desirable to use more than one channel to reach the target customer. This is known as intensive distribution policy. The purpose in this Sometimes, companies, manufacturing complex machinery, scientific instrument, etc.

2. Characteristics of the product: The nature of the product influences the choice of channel. For example, perishable products like eggs, milk, etc., are supplied either directly or through the short channels. In the case of heavy and bulky products (e.g. cement, steel) where distribution and handling costs are more, short channels are preferred. Sophisticated electrical and electronics equipment which require careful handling are also generally distributed directly or through short channels. 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. Similarly, simple mechanical products like electronic toys, time-clocks, etc., are supplied through long channels for intensive distribution.

3 Characteristics of target customers; If the number of customers is large and geographical area is extensive, long and multiple channels are necessary for intensive distribution of goods. This is also suitable where the consumers are in the habit of making frequent purchases of small quantities at irregular intervals. Short channels and direct selling are possible in the case of few customers who purchase large quantities at regular intervals and they are concentrated in a small area.

4. Supply characteristics: Goods produced by a small number of producers concentrated in one region are generally distributed through short channels. Particularly this is more so if each producer

controls a fairly large share of the market. Long channels are suitable if a large number of producers in different regions produce and supply the goods.

5. **Supply characteristics:** 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

6. **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, other producers also do the same. Thus, selection of a channel may depend on the competition prevailing in the distribution system.

7. **Potential volume of sales:** The choice of the channel depends upon the target volume of business. The ability to reach target customers and the volume of sales varies between different channels. One outlet may not be adequate for achieving the target in which case 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:

8. **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.

9. **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 if competing products appear in the market. It may not be economical then to use long channels. So, while choosing a channel one should keep in mind the future market implications as well.