Distribution Channel

A distribution channel is a chain of businesses or intermediaries through which a good or service passes until it reaches the final buyer or the end consumer. Distribution channels can include wholesalers, retailers, distributors, and even the Internet.

Distribution channels are part of the downstream process, answering the question "How do we get our product to the consumer?" This is in contrast to the upstream process, also known as the supply chain, which answers the question "Who are our suppliers?

Understanding Distribution Channels
A distribution channel is a path by which all goods and services must travel to arrive at the intended consumer. Conversely, it also describes the pathway payments make from the end consumer to the original vendor. Distribution channels can be short or long, and depend on the number of intermediaries required to deliver a product or service.

Goods and services sometimes make their way to consumers through multiple channels—a combination of short and long. Increasing the number of ways a consumer is able to find a good can increase sales. But it can also create a complex system that sometimes makes distribution management difficult. Longer distribution channels can also mean less profit each intermediary charges a manufacturer for its service.

Direct and Indirect Channels
Channels are broken into two different forms—direct and indirect. A direct channel allows the consumer to make purchases from the manufacturer while an indirect channel allows the consumer to buy the goods from a wholesaler or retailer. Indirect channels are typical for goods that are sold in traditional brick-and-mortar stores.

Generally, if there are more intermediaries involved in the distribution channel, the price for a good may increase. Conversely, a direct or short channel may mean lower costs for consumers because they are buying directly from the manufacturer.

Types of Distribution Channels
While a distribution channel may seem endless at times, there are three main types of channels, all of which include the combination of a producer, wholesaler, retailer, and end consumer.

The first channel is the longest because it includes all four: producer, wholesaler, retailer, and consumer. The wine and adult beverage industry is a perfect example of this long distribution channel. In this industry—thanks to laws born out of prohibition—a winery cannot sell directly to a retailer. It operates in the three-tier system, meaning the law requires the winery to first sell its product to a wholesaler who then sells to a retailer. The retailer then sells the product to the end consumer.

The second channel cuts out the wholesaler—where the producer sells directly to a retailer who sells the product to the end consumer. This means the second channel contains only one intermediary. Dell, for example, is large enough to sell its products directly to reputable retailers such as Best Buy.

The third and final channel is a direct-to-consumer model where the producer sells its product directly to the end consumer. Amazon, which uses its own platform to sell Kindles to its customers, is an example of a direct model. This is the shortest distribution channel possible, cutting out both the wholesaler and the retailer.

Distribution Patterns

Even though patterns of distribution are in a state of change and new patterns are developing international marketers need a general awareness of the traditional distribution base. The traditional system will not change overnight and vestiges of it will remain for years to come. Nearly every international firm is forced by the structure of the market to use at least some middlemen in the distribution arrangement. It is all too easy to conclude, that, because the structural arrangements of foreign and domestic distribution seem alike, foreign channels are the same as or similar to domestic channels of the same name. This is misleading. Only when the varied intricacies of actual distribution patterns are understood can the complexity of the distribution task be appreciated. The following description should convey a sense of the variety of distribution pattern.

General patterns

Generalizing about internal distribution channel patterns of various countries is almost as difficult as generalizing about behavior patterns of people. Despite similarities marketing channels are not the same throughout the world. Marketing methods taken for granted in the US are rare in many countries.

Middlemen services

The service of people in trade varies sharply at both the retail and wholesale levels form country to country. In Egypt for example the primary purpose of the simple trading system is to handle the physical distribution of available goods. On the other hand when margins are low and there is a continuing battle for customer preference both wholesalers and retailers try to offer extra services to make their goods attractive to consumers. When middlemen are not interested in promoting or selling individual items of merchandise the manufacturer must provide adequate inducement to the middlemen or undertake much of the promotion and selling effort. In China, for example wholesalers see their function as storing the goods and waiting for their customers to come to them.

Line Breadth

Every nation has a distinct pattern relative to the breadth of line by wholesalers and retailers. The distribution system of some countries seems to be characterized by middlemen who carry or can get everything in others every middleman seems to be a specialist dealing only in extremely narrow lines. Government regulations in some countries limit the breadth of line that can be carried by middlemen and licensing requirements to handle certain merchandise are not uncommon.

Costs and margins

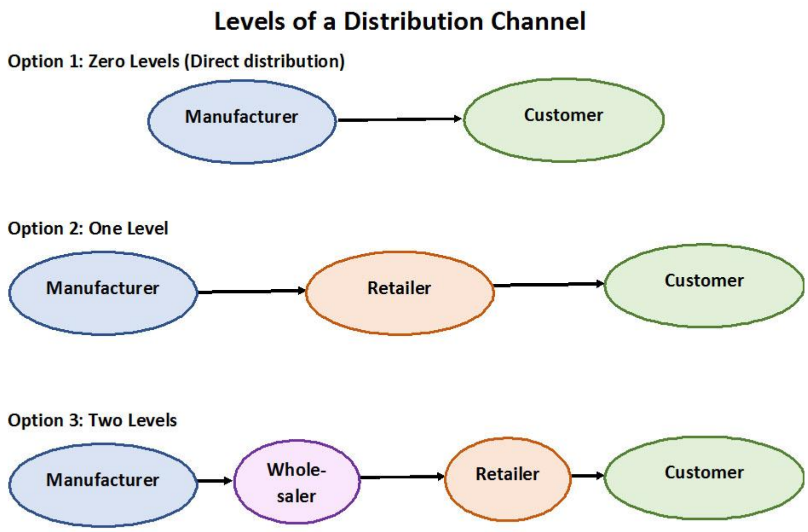
Cost levels and middleman margins vary widely from country to country depending on the level of competition, services offered, efficiencies or inefficiencies of scale, and geographic and turnover factors related to market size, purchasing power, tradition and other basic determinants. In India, competition in large cities is so intense that costs are low and margins thin; in rural areas, however the lack of capital has permitted the few traders with capital to gain monopolies with consequent high prices and wide margins

Channel Length

Some correlation may be found between the stage of economic development and the length of marketing channels. In every country, channels are likely to be shorter for industrial goods and high priced consumers' goods than for low priced products. In general, there is an inverse relationship between channel length and the size of the purchase. Combination wholesaler retailers or semi-wholesalers exist in many countries adding one or two links to the length of the distribution chain. In China, for example the traditional distribution system for over the counter drugs consists of large local wholesalers divided into three levels. First level wholesalers supply drugs to major cities such as Beijing and Shanghai. The second level services medium sized cities and the third level distributes to countries and cities with 100,000 or fewer people. It can be profitable for a company to sell directly to the two top level wholesalers and have them sell to the third level, which is so small that it would be unprofitable for the company to seek out.

Types of Intermediaries

These are the middlemen that ensure smooth and effective distribution of goods over your chosen geographical market. Middlemen are a very important factor in the distribution process. let us take a look at the types of middlemen we usually find.



1] Agents

Agents are middlemen who represent the produces to the customer. They are merely an extension of the company but the company is generally bound by the actions of its agents. One thing to keep in mind, the ownership of the goods do not pass to the agent. They only work on fees and commissions.

2] Wholesalers

Wholesalers buy the goods from the producers directly. One important characteristic of wholesalers is that they buy in bulk at a lower rate than retail price. They store and warehouse huge quantities of the products and sell them to other intermediaries in smaller quantities for a profit.

Wholesalers generally do not sell to the end consumer directly. They sell to other middlemen like retailers or distributors.

3] Distributors

Distributors are similar to wholesalers in their function. Except they have a contract to carry goods from only one producer or company. They do not stock a variety of products from various brands. They are under contract to deal in particular products of only one parent company

4] Retailers

Retailers are basically shop owners. Whether it is your local grocery store or the mall in your area they are all retailers. The only difference is in their sizes. Retailers will procure the goods from wholesaler or distributors and sell it to the final consumers. They will sell these products at a profit margin to their customers.

In the reality of the market, all producers rely on the distribution to channel to some extent. Even those who sell directly may rely on at least one of the above intermediary for any purpose. Hence the distribution channel is of paramount importance in our economy.