Channel of distribution / Marketing Channel

Marketing channel is a system which ensures the distribution of the merchandise from the producer to the consumers by passing it through multiple levels known as middlemen. It is also known as channels of distribution. Every product is different from one another and so are their channels of distribution.

A **marketing channel** is the people, organizations, and activities necessary to transfer the ownership of goods from the point of production to the point of consumption. ... A **marketing channel** is a useful tool for management, and is crucial to creating an effective and well-planned **marketing** strategy

WHY MARKETING CHANNELS ARE REQUIRED :

Marketing channels are required due to following reasons or because they performs following functions:

a. Information – The marketing channels perform the task of collecting and disseminating of marketing information about customers, competitors as well as potential customers and other market forces.

b. Promotion – Persuasive communication is disseminated through the channels to the customers. The channels also often help in the design of these communication messages.

c. Negotiation – The channel members are the ones who negotiate with other channel members and customers (in regards to price and quantity to be purchased) to facilitate the transfer of ownership.

d. Financing – The marketing channels work towards the acquisition and allocation of funds required to finance inventories at different levels of the marketing channels.

e. Risk taking – The channel members assume the risk for carrying out the channel work. That is to say risk in marketing new product, maintaining inventories to meet sudden demand from customers,providing guarantee in regards to quality and worth of product to customers etc.

f. Physical possession – The channel members also take the responsibility of storage of goods during the successive stages to the final consumers.

g. Ordering – This function is with regards to the communication of channel members regarding the intention to purchase and placing and fulfilling the order in time

h. Payment – The channel members also assume responsibility for the buyers honouring their payments to the sellers through banks and other financial instruments and also giving credits to customer and paying in advance to company.

i. Title – The channel members facilitate actual transfer of ownership from one organisation or person to the other and thus helps in transfer of ownership or title

<u>**TYPES OF CHANNEL**</u>

Channels of distribution can be divided into the **direct channel** and the **indirect channels** and some time **dual distribution** also. 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/ zero 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. . Direct channels are usually used by manufacturers selling perishable goods, expensive goods, and whose target audience is geographically concentrated. For example, bakers, jewellers, etc.

2 . **Indirect channel or 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.
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- The agents can be categorised into super stockists and carrying and forwarding agents (C and F agents). Both these agents keep the stock on behalf of the company. Super stockists 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 userbase ie customers are 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.