

J.S (P.G) COLLEGE SIKANDRABAD

B.COM- 3RD YEAR

SUBJECT- PRINCIPLES OF MARKETING

TOPIC: Marketing Channel

Marketing Channel

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](#). It is the way products get to the [end-user](#), the [consumer](#); and is also known as a [distribution channel](#).^[1] A

marketing channel is a useful tool for management,^[2] and is crucial to creating an effective and well-planned marketing strategy.^[3]

Another less known form of the marketing channel is the **Dual Distribution**^[4] channel. This channel is a less traditional form that allows the [manufacturer](#) or [wholesaler](#) to reach the end-user by using more than one distribution channel. The producer can simultaneously reach the consumer through a direct market, such as a website, or sell to another company or [retailer](#) that will reach the consumer through another channel, i.e., a store. An example of this type of channel would be [franchising](#).^[4]

Roles of marketing channel in marketing strategies

- Links producers to [buyers](#).
- Influences the firm's [pricing strategy](#).
- Affecting product strategy through branding, policies, willingness to stock.
- Customizes profits, install, maintain, offer credit, etc.

Types

There are four main types of marketing channels.

Producer → Customer (Zero-level Channel)

The producer sells the goods or provides the service directly to the consumer with no involvement with a middle man such as an [intermediary](#), a [wholesaler](#), a [retailer](#), an agent, or a [reseller](#). The consumer goes directly to the producer to buy the product without going through any other channel. This type of marketing is most beneficial to farmers who can set the prices of their products without having to go through the [Canadian Federation of Agriculture](#). Typically, goods that are consumed by a smaller segment of the market have influence over producers and, therefore, goods that are produced in the response on the order of a few consumers are taken into account. Normally goods and services of this channel are not utilized by large market segments. Moreover, the price of the goods may be

subject to significant fluctuations. For example, high demand dictates an increase in the price.

In addition, this particular channel has three main ways of direct selling and these include; peddling, mail-order sales and trade through manufacturer-owned stores.^[5] Peddling is an outdated version of trade between two parties and consignments are often sold in small amounts by sellers who are traveling to different places. For example, sales representative sells New Wave cosmetics to housewives by using a method of peddling. Mail-order sales are usually used to sell catalogs, books etc., except industrial and bulky goods. For example, a firm sells collectible through the use of mail-order. Also, this method of selling is normally made without eye contact.

In the last method (manufacturer-owned stores), the manufacturer itself is surrounded by the stores and directly supplies goods to its stores. For example, Zinger sells its sewing machines through its own stores.^[5] Due to distance of goods and products between producer and a seller, it takes an advantage to be an effective channel of distribution in its kind and these advantages are; producers pay close attention with customers and are aware of theirs' thought's and ideas that are shared with them, there are no intermediaries that could substantially reduce the profit of a company which would then result in significant loss and delivery time is shortened due to having no obstacles like middleman etc. Despite these apparent advantages, direct selling has not become a powerful channel. According to an estimate, even less

than 3 percent of total consumers' sales are made in this channel.[\[6\]](#)

On the other hand, technological innovations, the aid of the internet and convenient smartphones are now changing the way that commerce works significantly. The proliferation of internet-direct channels means that internet companies will be able to produce and directly trade services and goods with consumers. It can be distributed directly through the internet, for example, services in the sphere of gambling or software such as antivirus programs as such.

Producer → Retailer → Consumer (One-level Channel)

Retailers, like [Walmart](#) and [Target](#), buy the product from the manufacturer and sell them directly to the consumer. This channel works best for manufacturers that produce shopping goods like, [clothes](#), [shoes](#), [furniture](#), [tableware](#), and [toys](#).[\[7\]](#) Since consumers need more time with these items before they decide to purchase them, it is in the best interest of the manufacturer to sell them to another user before it gets into the hand of the consumers. It is also a good strategy to use another dealer to get the product to the end-user if the producer needs to get to the market more quickly[\[8\]](#) by using an established network that already has [brand loyalty](#). In accordance with the form of the retail property, operators can be an independent company, owned by a different owner or to engage in the retail network. Intermediaries (retail service) are essential and useful due to its

professionalism, an ability to offer products to the target market, using their connections in the industry, experience, the advantages of specialization and the high quality of work.^[9] The fact suggests that manufactories produce large goods and products but limited in its assortment and merchandise. However, consumers seek broader assortment in lesser quantities.^[9] Therefore, it is highly important to distribute goods from different manufacturers to suit consumers needs and wants. When creating a retail store the efforts that required by buyers when making a purchase are considered. For example, stores that selling everyday consumer goods are conveniently located for residents of the nearby neighborhood. The speed and convenience of service for clients' interests are put in high priority and suits their schedule. An equally important component of the retail trade are the retail functions that play crucial roles and they include; research of products, implementation of storage, setting of pricing policy, arrangements of products and its selection for the creation of different merchandise assortments, exploration of the condition prevailing in the market.^[10] This channel is considered to be beneficial if; the volume of pre-sale and post-sale is insignificant, the amount of segments of the market is not enormous, the assortment of goods and products is broad. Ultimately, the significance of intermediaries in distribution business is vital as they help consumers obtain a particular good of a particular brand without unnecessary steps. Thus, mediators play an important

role in establishing a correspondence between demand and supply.

Producer → Wholesaler → Retailer → Customer (Two-level Channel)

Wholesalers, like [Costco](#), buy the products from the manufacturer and sell them to the consumer. In this channel, consumers can buy products directly from the wholesaler in [bulk](#). By [buying the items in bulk](#) from the wholesaler the prices of the product are reduced. This is because the wholesaler takes away extra costs, such as service costs or sales force costs, that customers usually pay when buying from retail; making the price much cheaper for the consumer.^[7] However, the wholesaler does not always sell directly to the consumer. Sometimes the wholesaler will go through a retailer before the product gets into the hands of the consumer. Each dealer (the manufacturer, the wholesaler, and the retailer) will be looking to make a decent [profit margin](#) from the product. So each time the buyer purchases the merchandise from another source, the price of the product has to increase, in order to [maximize the profit](#) each person will receive. This raises the price of the product for the end-user. Due to the simultaneous and joint work of wholesaler and retailer, a trade can only be beneficial if; a market is situated on a larger area, the supply of goods and products is carried out small but urgent consignments (products), it can be cost-effective and profitable by supplying bigger consignments

(products) to fewer customers. Industrial factories are in the seek of using advantages of mass production in order to produce and sell big lots (batches) while retailers look and prefer purchasing smaller consignments. This method for factories could lead to instant sales, high efficiency, and cost-effectiveness. Therefore, particularly in these situations wholesaler now plays a role where it reconciles these contradictory aspirations.[\[11\]](#) The wholesaler purchases big lots then divides minimizes after resells them to further retailers. The work of wholesaler facilitates and makes it less burdensome for the transportation of production. Hence, an amount of delivered goods diminishes through the use of this channel (the wholesale). For example, if five manufactories supply goods directly to hundred different retail stores, then they will have to have 500 of deliveries (5 times 100). However, if those five manufactories supply the same wholesaler, and the wholesaler at this stage supplies 100 different retailers, then the total number of deliveries will decrease to 105 (5 plus 100).[\[11\]](#) Another important component to consider in the practice of wholesaling is storage. Storage of goods is one of the characterized aspects of the work of a wholesaler. Wholesaler regulates the deliveries of goods, having synchronized the production and consumption of material goods.[\[11\]](#) Moreover, he as the wholesaler further assumes the financial obligations related to the immobilization of funds invested in the creation of commodity stocks. Although, the chain of transition suggests that the wholesaler directly communicates and

deals with a manufacturer may not be unambiguous. The contribution of a distributor is highly acknowledged and plays a crucial role in distributing flows of goods before it gets in the hands of wholesalers, retailers and so on. A distributor is the representative of the manufacturer and performs functions on behalf of the manufacturer for the distribution of goods from producer to wholesaler or retailer. A distributor is always in the seek out for orders from different clients and possesses activeness in promoting producer's products and services. The main tasks of a distributor are; study the market and the creation of databases of consumers, advertising of goods, an organization of a service for the delivery of goods, stocking up the inventory levels, the creation of a stable sales network, which includes dealers and other intermediaries, depending on the market situation. Distributors scarcely sell a manufactories' goods directly to customers.

Producer → Agent/Broker → Wholesaler or Retailer → Customer (Three-level Channel)

This distribution channel involves more than one intermediary before the product gets into the hands of the consumer. This middleman, known as the agent, assists with the negotiation between the manufacturer and the seller. Agents come into play when the producers need to get their product into the market as quickly as possible. This happens mostly when the item is perishable and has to get to the market fresh before it

starts to rot.[7] At times, the agent will directly go to the retailer with the goods, or take an alternate route through the wholesaler who will go to a retailer and then finally to the consumer. A mutual cooperation normally occurs when parties, in particular, the last channel of marketing chain of distribution meet. Due to the fact that producers, agents, retailers/wholesalers and consumers of this channel aid each other and benefit from each other. Their cooperation generates a greater output in terms of further profitability, by discernment and exploring newer markets of sales and building a better business relationship. The participants of distribution channels must have knowledge and experience not only for the effective maintenance of target segments but also to maintain the competitive advantage of the manufacturer. For example, an Agent who is able to vary prices for certain products can negotiate and or lower prices. This will assist him in sustain the comparative advantage, stay on top of its competitors and stay demanded on the market. A Broker works mainly to bring the seller and the buyer and to assist in the negotiation process. An intermediary like Broker is usually dependent on the commission of a sold product or production in terms of goods. In addition, therefore, a Broker is involved in one-off transactions and can not be an effective channel of distribution.[9] However, he can maintain a competitive advantage over other firms in the form of a particular brand if he has obtained the right to exclusive representation of the manufacturer and can profit from it more. He acts on behalf of the seller

(Producer/Manufacture) and has no rights to modify prices for products. In addition, having formed a channel of distribution it is important to remember that the exploitation and utilization of intermediaries in a business (not only wholesalers, retailers but also transport logistics) will lengthen the chain of distribution.[\[13\]](#) A business will then need to consider which channel is more cost effective and productive in terms of time delivery, efficiency, pricing policy and where it stands among competitors; for example, overall feedback, higher rating, higher demand from customers etc. The best use and help of intermediaries can be applied to start-up businesses and perhaps an established business

Channel marketing

Brands involved in selling through marketing channels (also commonly known as distribution channels) have relationships with the channel partners (local resellers, retailers, field agents, etc.) that sell their products or services to the end customer. Brands that aim to maximize sales through channel partners provide them with advertising and promotional support that is pre-configured and often subsidized by the brand.

Coordinated channel marketing

Brands carry out online and offline advertising on behalf of channel partners to aid them in generating sales of their branded products. Those online and offline

marketing initiatives can either be isolated or coordinated to inform one another.[\[14\]](#)

An example of this is an apple orchard: Apple orchard > Transport > Processing factory > Packaging > Final product to be sold > Apple pie eaten

An alternative term is [distribution channel](#) or 'route-to-market'. It is a 'path' or 'pipeline' through which goods and services flow in one direction (from vendor to the consumer), and the payments generated by them flow in the opposite direction (from consumer to the vendor). A marketing channel can be as short as being direct from the vendor to the consumer or may include several interconnected (usually independent but mutually dependent) intermediaries such as wholesalers, distributors, agents, retailers. Each intermediary receives the item at one pricing point and moves it to the next higher pricing point until it reaches the final buyer.

Marketing Channels can be long term or short term.[\[15\]](#)

Short term channels are influenced by market factors such as: business users, geographically concentrated, extensive technical knowledge and regular servicing required, and large orders. Short term product are influenced by factors such as: perishable, complex, and expensive. Short term producer factors include whether the manufacturer has adequate resources to perform channel functions, Broad product line, and channel control is important. Short term competitive factors

include: manufacturing feels satisfied with marketing intermediaries' performance in promoting products.

Long term market factors include consumers, geographically dispersed, little technical knowledge and regular servicing is not required, and small orders.

Product factors for long term marketing channels are: durable, standardized, and inexpensive. Producer factors are manufacturer lacks adequate resources to perform channel functions, limited product line, and channel control not important. The competitive factors are: manufacturer feels dissatisfied with marketing intermediaries' performance in promoting products

Differentiation channel marketing

There are three channel marketing approaches:

- [Multichannel marketing](#)
- Omni channel marketing
- Cross channel marketing

These approaches can be differentiated by:

- Where they take place (on which channels)
- The differentiation of customer data which are used and how campaigns will be setup
- The marketing approach
- The main goal