



## CHANNELS OF DISTRIBUTION



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Thus, the study material prepared by NIOS reached you either through your centre or through booksellers. In a similar way most of the goods and services we use in our daily life also come from the producers or manufacturers and reach us through some people. In this lesson, you will learn how the goods and services of your need reach to you.



### OBJECTIVES

After studying this lesson, you will be able to:

- explain the meaning of channels of distribution;
- identify different channels of distribution;
- describe the functions of wholesalers and retailers;
- distinguish between wholesalers and retailers;

### 13.1 MEANING OF CHANNELS OF DISTRIBUTION

You know that the main purpose of trade is to supply goods to the consumers living in far off places. As goods and services move from producer to consumer they may have to pass through various individuals, let us take an example. A farmer living in Srinagar has an apple orchard. Once the apples are ripened he sells the apples to an agent of Delhi. The agent collects the apples from Srinagar, packs them, and sells them to a wholesaler of Delhi fruit market. The retailers

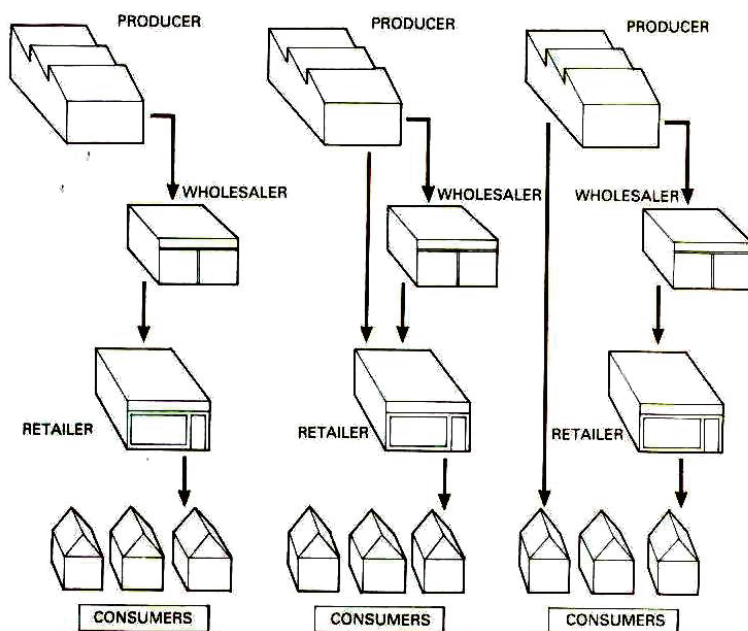


buy apples from the wholesalers in small quantities to sell them to the consumers.

Finally, we purchase apples from the vendors as per our requirement. Thus, we find that while coming from the producer at Srinagar, the product reaches the consumers by passing through several hands like an agent, a wholesaler and a retailer. All these three are called middlemen.

These middlemen are the connecting links between producers of goods, on one side and consumers, on the other. They perform several functions such as buying, selling, storage, etc. These middlemen constitute the channels of distribution of goods. Thus, a channel of distribution is the route or path along which goods move from producers to ultimate consumers.

The route taken by goods as they move from producer to consumer is known as Channel of Distribution as shown by the following figure :



**13.2 TYPES OF CHANNELS**

Normally goods and services pass through several hands before they reach in the hands of the consumer for use. But in some cases producers sell goods and services directly to the consumers without involving any middlemen in between them, which can be called as direct channel. So there are two types of channels, one direct channel and the other, indirect channel.

Direct channel include from Producer to Consumer. While indirect channels are of various types such as :

- (i) Producer → Agent → Wholesaler → Retailer → Consumer
- (ii) Producer → Wholesaler → Retailer → Consumer
- (iii) Producer → Agent → Consumer
- (iv) Producer → Wholesaler → Consumer and
- (v) Producer → Retailer → Consumer

### Common Channels of Distribution

#### (i) Direct Channel

In this channel, producers sell their goods and services directly to the consumers. There is no middleman to come between the producers and consumers. The producers may sell directly to consumers through door-to-door salesmen and through their own retail stores. For example, Bata India Ltd, HPCL, Liberty Shoes Limited has their own retail shops to sell their products to consumers. For certain service organizations consumers avail the service directly. Banks, consultancy firms, telephone companies, transport services, etc. are examples of direct channel of distribution of service.

Producer → Consumer

#### (ii) Indirect Channel

If the producer is producing goods on a large scale, it may not be possible for him to sell goods directly to consumers. As such, he sells goods through middlemen. These middlemen may be wholesalers or retailers. A wholesaler is a person who buys goods in large quantities from producers; where as a retailer is one who buys goods from wholesalers or producers and sells ultimate by to consumers as per their requirements. The involvement of various middlemen in the process of distribution constitute the indirect channel of distribution. Let us look into some of the important indirect channels of distribution.

Producer → Retailers → Consumer

This is the common channel for the distribution of goods to ultimate consumers. Selling goods through wholesaler may be suitable in case of food grains, spices, utensils, etc. and mostly of items, which are smaller in size.

Under this channel, the producers sell to one or more retailers who in turn sell to the ultimate consumers. This channel is used under the following conditions –

Producer → Wholesaler → Retailer → Consumer

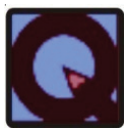
- (i) When the goods cater to a local market, for example, breads, biscuits, patties, etc.
- (ii) When the retailers are big and buy in bulk but sell in smaller units, directly to the consumers.





**Notes**

Departmental stores and super bazars are examples of this channel.



**INTEXT QUESTIONS 13.1**

Complete the following statements using suitable words:

- (i) Route or path along which goods move from the producer to ultimate consumer is known as \_\_\_\_\_.
- (ii) A retailer acts as a \_\_\_\_\_ between the wholesaler and the ultimate consumers.
- (iii) Where goods are sold through middlemen, it is known as \_\_\_\_\_ channel of distribution.
- (iv) Where goods are sold directly to consumers without using services of middlemen, it is known as \_\_\_\_\_ channel.
- (v) In the direct channel, producers sell goods to customers through door-to-door salesmen and through their own \_\_\_\_\_.

**13.3 WHOLESALERS AND RETAILERS**

Wholesalers and retailers are important middlemen who generally facilitate flow of goods from the producers to the consumers. Let us study in details about them.

**13.3.1 Wholesalers**

Wholesalers are one of the important middlemen in the channel of distribution who deal with the goods in bulk quantity. They buy goods in bulk from the producers and sell them in relatively smaller quantities to the retailers. In some cases they also sell goods directly to the consumers if the quantity to be purchased is more. They usually deal with a limited variety of items and also in a specific line of product, like iron and steel, textiles, paper, electrical appliances, etc. Let us know about the characteristics of wholesaler.

**Characteristics of Wholesalers**

The followings are the characteristics of wholesalers:

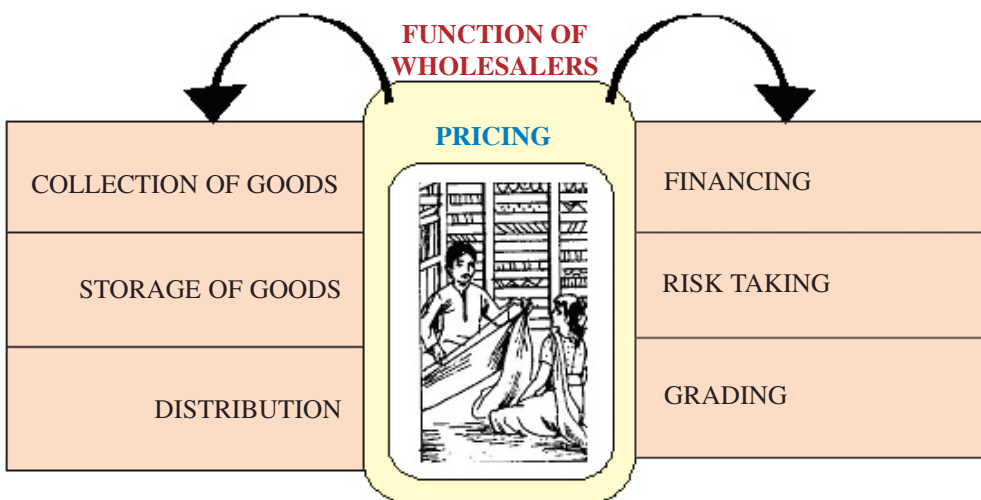
- (i) Wholesalers buy goods directly from producers or manufacturers.
- (ii) Wholesalers buy goods in large quantities and sell in relatively smaller quantities.
- (iii) They sell different varieties of a particular line of product. For example, a wholesaler who deals in paper is expected to keep all varieties of paper, cardboard, card, etc.
- (iv) They may employ a number of agents or workers for distribution of products.

- (v) Wholesalers need large amount of capital to be invested in his business.
- (vi) They generally provide credit facility to retailers.
- (vii) They also provide financial assistance to the producers or manufacturers.
- (viii) In a city or town they are normally seen to be located in one particular area of the market.

For example, you can find cloth merchants in one area, book publishers and sellers in another area, furniture dealers in a different area.

### Functions of Wholesalers

You have well understood the meaning of wholesaler and listed their characteristics. Now let us know about the functions of wholesalers.



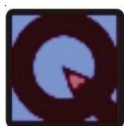
Following are the functions, which a wholesaler usually performs.

- (a) **Collection of goods:** A wholesaler collects goods from manufacturers or producers in large quantity.
- (b) **Storage of goods:** A wholesaler collects the goods and stores them safely in warehouses, till they are sold out. Perishable goods like fruits, vegetables, etc. are stored in cold storage.
- (c) **Distribution:** A wholesaler sells goods to different retailers. In this way, he also performs the function of distribution.
- (d) **Financing:** The wholesaler provides financial support to producers and manufacturers by providing money in advance to them. He also sells goods to the retailer on credit. Thus, at both ends the wholesaler acts as a financier.
- (e) **Risk taking:** The wholesaler buys finished goods from the producer and keeps them in the warehouses till they are sold. Therefore, he assumes the risks arising out of changes in demand, rise in price, spoilage or destruction of goods.





- (f) **Grading:** He classifies the goods in different categories since all the collected goods are not of same quality. He grades the goods on the basis of quality, size and weight etc. He also undertakes packaging of goods which facilitates trade. Some wholesalers also perform the function of branding. They give brand names to the products they deal in.
- (g) **Pricing:** The final prices are set by the wholesalers. They provide stability to the prices by regulating supply of goods in accordance with the demand for them. They influence market conditions, the demand for the goods and the taste of the people and make necessary arrangements to meet the demand when it comes up.

**INTEXT QUESTIONS 13.2**

Which of following statements about wholesalers are true and which are false?

- (i) They buy goods directly from retailers, for sale to customers.
- (ii) They generally provide credit facility to producers as well as to retailers.
- (iii) They collect goods in large quantities and store them safely till they are sold out.
- (iv) Wholesalers require small amount of capital investment for their business.
- (v) They are located at a number of places in different markets near the customer.
- (vi) They buy goods of a large variety in small quantities for sale.

**13.3.2 Retailers**

Retailers are the traders who buy goods from wholesalers or sometimes directly from producers and sell them to the consumers. They usually operate through a retail shop and sell goods in small quantities. They keep a variety of items of daily use.

**Characteristics of Retailers**

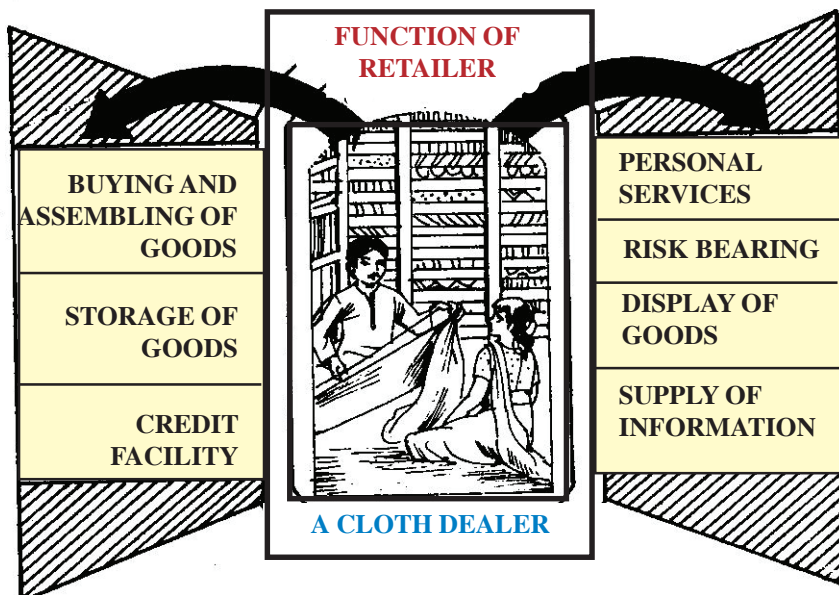
The following are the characteristics of retailers:

- (i) Retailers have a direct contact with consumers. They know the requirements of the consumers and keep goods accordingly in their shops.
- (ii) Retailers sell goods not for resale, but for ultimate use by consumers. For example, you buy fruits, clothes, pen, pencil etc. for your use, not for resale.
- (iii) Retailers buy and sell goods in small quantities. So customers can fulfil their requirement without storing much for the future.

- (iv) Retailers require less capital to start and run the business as compared to wholesalers.
- (v) Retailers generally deal with different varieties of products and they give a wide choice to the consumers to buy the goods.
- (vi) Retailers purchase the goods on credit but normally sell them for cash.
- (vii) Retailers give special attention towards the decoration and display of goods in their shops. This is done to attract customers.

### Functions of Retailers

All retailers deal with the customers of varying tastes and temperaments. Therefore, they should be active and efficient in order to satisfy their customers and also to induce them to buy more. Let us see what the retailers do in distribution of goods.



- (i) **Buying and Assembling of goods:** Retailers buy and assemble varieties of goods from different wholesalers and manufacturers. They keep goods of those brands and variety which are liked by the customers and the quantity in which these are in demand.
- (ii) **Storage of goods:** To ensure ready supply of goods to the customer retailers keep their goods in stores. Goods can be taken out of these store and sold to the customers as and when required. This saves consumers from botheration of buying goods in bulk and storing them.
- (iii) **Credit facility:** Although retailers mostly sell goods for cash, they also supply goods on credit to their regular customers. Credit facility is also provided to those customers who buy goods in large quantity.





- (iv) **Personal services:** Retailers render personal services to the customers by providing expert advice regarding quality, features and usefulness of the items. They give suggestions considering the likes and dislikes of the customers. They also provide free home delivery service to customers. Thus, they create place utility by making the goods available where ever they are demanded.
- (v) **Risk bearing:** The retailers have to bear many risks, such as risk of:
  - (a) fire or theft of goods
  - (b) deterioration in the quality of goods as long as they are not sold out.
  - (c) change in fashion and taste of consumers.
- (vi) **Display of goods:** Retailers display different types of goods in a very systematic and attractive manner. It helps to attract the attention of the customers and also facilitates quick delivery of goods.
- (vii) **Supply of information:** Retailers provide all information about the behaviour, tastes, fashions and demands of the customers to the producers through wholesalers. They become a very useful source of information for marketing research.

**13.4 DISTINCTION BETWEEN WHOLESALERS AND RETAILERS**

You have studied about wholesalers and retailers. You might have noticed that both of them differ in their style and function. Let us find out these differences.

Wholesalers	Retailers
(i) Buy goods in large quantities	(i) Buy goods in small quantities.
(ii) Buy goods directly from producers.	(ii) Generally buy goods from the wholesalers.
(iii) Deals in limited variety of goods.	(iii) Deals in wide range of products.
(iv) Require more capital to start and run the business	(iv) Require less capital to start and run the business.
(v) Sells goods for resale purpose.	(v) Sells goods for consumption.
(vi) No direct contact with consumers.	(vi) Direct contact with consumers.
(vii) No special attention is given to decoration of shop.	(vii) In order to attract the attention of customers retailers give more attention to decoration of shop.





**INTEXT QUESTIONS 13.3**



Notes

I. From the sentences given below, mark (W) for those belonging to wholesalers and (R) for retailers in the boxes given against each:

- (i) Selling goods in small quantities ( )
- (ii) More capital required ( )
- (iii) Sale of goods for resale ( )
- (iv) Dealing in a limited range of goods only ( )
- (v) Direct contact with consumers ( )

II. Answer the following questions:

(i) What are the types of risks borne by the retailers? Mention any two risks.

\_\_\_\_\_  
\_\_\_\_\_

(ii) How do the producers get benefits from the functions of retailers? Write the benefits arising from any two functions.

\_\_\_\_\_  
\_\_\_\_\_

(iii) Suppose two or three shopkeepers sell the same type of goods in your locality. From which shopkeeper would you like to purchase your requirements?

\_\_\_\_\_  
\_\_\_\_\_

III. Multiple Choice Questions

- i. Direct Channel includes only.
  - (a) Producer → Retailer → Consumer
  - (b) Producer → Consumer
  - (c) Producer → Wholesaler → Consumer
  - (d) Producer → Agent → Consumer
- ii. The trade in which bulk quantity of goods are sold to trader is called
  - (a) Foreign Trade (b) Wholesale Trade
  - (c) In Land Trade (d) Retail Trade
- iii. Wholesaler is an important link between
  - (a) Producer and Wholesaler (b) Retailer and Consumer
  - (c) Producer and Consumer (d) Producer and Retailer



- iv. The likes and dislikes of consumers reach to wholesalers from time to time through-
- (a) Advertisement (b) Newspaper  
(c) Retailers (d) Consumers
- v. The main features of a wholesaler is –
- (a) To advertise the products  
(b) To sell the goods at cheap rates  
(c) To deal in variety of goods  
(d) To purchase the goods from producers and sell it to retailers

**WHAT YOU HAVE LEARNT**

- Channels of distribution is the route taken by goods as they move from producers to consumers. When producers sell goods and services directly to the consumers, it is a direct channel. Where a number of middlemen are involved in the process of distribution it is an indirect channel.
- Wholesalers are those middlemen in the channel of distribution who deal in goods in bulk quantity. They sell goods to retailers and in some cases directly to consumers. Wholesalers perform the functions of collection and storage of goods, distribution, financing, risk taking, grading and pricing.
- Retailers are the traders who buy goods from wholesalers and sell them to the consumers. They perform various functions as buying and assembling of goods, storage of goods, credit facility, personal services, risk bearing, display of good and supply of information.

**TERMINAL EXERCISE**

1. What is meant by Channels of Distribution?
2. Give four examples of services that are distributed through the direct channels.
3. Explain the different channels through which a product moves from producers to ultimate consumers.
4. Define wholesaler. How do they serve as an important link in the channel of distribution?
5. Give any four characteristics of retailers.
6. Explain the role of retailers in distribution of goods.
7. State any five differences between wholesalers and retailers.
8. Explain the functions of wholesalers.



ANSWER TO INTEXT QUESTIONS

- 13.1** (i) channel of distribution, (ii) middleman, (iii) indirect, (iv) direct, (v) retail stores
- 13.2** (i) False, (ii) True, (iii) True, (iv) False, (v) False (vi) False
- 13.3** I. i. R ii. W iii. W iv. W v. R
- II. (i) Any two of the followings:
- a. Loss of goods by fire or theft.
  - b. deterioration in the quality of goods as long as they are not sold out.
  - c. change in fashion and taste of consumers
- (ii) a. They Help in marketing by assembling and display of goods.
- b. They bear risks that would otherwise have been borne by producers.
- c. They supply information to producers about the tastes and preferences of consumers.
- (iii) From that shop which we would like to purchase our requirements from the shopkeeper who:
- a. charges reasonable price
  - b. provides after sales services
  - c. provides variety of goods according to our tastes and preferences
  - d. provides facilities like credit sales, home delivery etc.
- III. (i) b, (ii) b, (iii) c, (iv) 4, (v)d

Notes



ACTIVITY FOR YOU

- Visit a shop nearer to your residence and find out from its functions whether it is a retailer or wholesaler.