Lesson 20

Channels of Distribution

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20.1 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; and
- identify different types of retail trade.
20.2 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 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 at New Delhi sabzimandi. The wholesaler then distributes them to various retail fruit vendors throughout Delhi by selling smaller quantities. Finally, we purchase apples from those 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 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.

![Fig. 20.1 Channels of Distribution](image)

20.3 Types of Channels

Normally goods and services pass through several hands before they come to 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.

From the above diagram it can be found that there is just one direct channel i.e. from producer to the consumer. There are many indirect channels like:
Channels of Distribution

Let us discuss about some of the common channels.

(i) Direct Channel

In this channel, producers sell their goods and services directly to the consumers. There is no middleman present 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, passenger and freight transport services, etc. are examples of direct channel of distribution of service.

(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; whereas a retailer is one who buys goods from wholesalers and producers and sells to ultimate consumers as per their requirement. 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 —> Wholesaler —> Retailer —> 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.

Producer —> Retailers —> Consumer

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—

(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. Departmental stores and super bazars are examples of this channel.
Intext Questions 20.1

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 __________.

20.4 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.

i. Wholesalers

Wholesalers are one of the important middlemen in the channel of distribution who deals 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 wholesaler:

(i) Wholesalers buy goods directly from producers or manufacturers.

(ii) Wholesalers buy goods in large quantities and sells in relatively smaller quantities.

(iii) They sell different varieties of a particular line of product. For example, a wholesaler who deals with 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 provides credit facility to retailers.

(vii) He also provides 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 one area; furniture dealers in one area etc.

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 quantities.

(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 sending 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.

**Intext Questions 20.2**

State which of following statement 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 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.

**ii. 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 sale.

(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.

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 when they are demanded.

(v) **Risk bearing**: The retailer has 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.

### 20.5 Distinction between Wholesaler and Retailer

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

<table>
<thead>
<tr>
<th>Wholesaler</th>
<th>Retailer</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Buys goods in large quantities.</td>
<td>(i) Buys goods in small quantities.</td>
</tr>
<tr>
<td>(ii) Buys goods directly from producers.</td>
<td>(ii) Generally buys goods from the wholesalers.</td>
</tr>
<tr>
<td>(iii) Deals with limited variety of goods.</td>
<td>(iii) Deals with wide range of products.</td>
</tr>
<tr>
<td>(iv) Requires more capital to start and run the business.</td>
<td>(iv) Requires less capital to start and run the business.</td>
</tr>
<tr>
<td>(v) Sell goods for resale purpose.</td>
<td>(v) Sell goods for consumption.</td>
</tr>
<tr>
<td>(vi) No direct contact with consumers.</td>
<td>(vi) Direct contact with consumer.</td>
</tr>
<tr>
<td>(vii) No special attention is given to decoration of shop.</td>
<td>(vii) In order to attract the attention of customers retailers give more attention to decoration of shop.</td>
</tr>
</tbody>
</table>

### Intext Questions 20.3

A. 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 only in a limited range of goods

   (   )

(v) Direct contact with consumers

   (   )

B. 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 in your locality sell the same type of goods. From which shopkeeper would you like to purchase your requirements?

________________________________________________________________________________________________________________________________________

________________________________________________________________________________________________________________________________________

20.6 Types of Retail Trade

You have learnt about retailers in the previous section. You may be under the impression that retailers are small shopkeepers trading in the nearby locality. However, you will be surprised to know that starting from hawkers and street traders, to super bazaars, departmental stores and multiple shops, all undertake retail-trading business in our country. We can classify this retailing business into two categories-

a. Small-scale retail trade; and

b. Large-scale retail trade.

Small-scale retail trade is one where a limited variety and also limited quantity of goods are sold within a local area. It requires less capital and provides goods to a limited number of customers. On the other hand, large-scale retail trade is one where capital investment is more and it deals with large volume of goods. It caters to the needs of a large number of customers. Super bazaars, Departmental stores and Multiple shops are examples of large scale retail trade organization.

You will be learning large-scale retail trade in the next lesson. In this lesson let us learn the details about small-scale retail trade.

Small-scale Retail Trade

There are verities of retailers engaged in small scale retail trading. They can be classified as:

(i) Itinerant Retailing

(ii) Fixed Shop Retailing
(i) **Itinerant Retailing**

Itinerant retailing is a type of small-scale retail trade in which retailers move around and sell a variety of items directly to the consumers. They do not have a fixed shop where they can sell. You must have seen them distributing newspapers early in the morning; selling peanuts, bangles, toys etc. in buses and trains; selling fruits and vegetables in your locality using a cart, selling ice-cream, namkeens etc. on a cycle, selling rice, earthen pots or even carpets by using a cart, etc. You can also see them on pavements in your locality. In towns and cities we come across different type of itinerant retailers. There are traders who sell their articles on fixed days at different market places. In villages these market places are called “Haat” and in towns or cities they are called “weekly bazars”. The itinerant retailing also includes persons selling articles from door to door. In most cases, the price of items is not fixed and mostly settled through bargaining. Moreover, in most cases the items sold are not branded products.

(ii) **Fixed Shop Retailing**

Here the retailers sell goods and services from a fixed place known as ‘shop’. These shops are usually located at market places or commercial areas or near residential localities. These shops normally deal with a limited variety of goods. The goods are stored as well as displayed in the shops.

On the basis of the type of goods which the fixed shops deal in, we can classify this form of retailing as under.

- a. General store or variety store
- b. Single line store
- c. Speciality store

Let us know the details about these stores.

**a. General store or Variety store**

These stores, as the name suggest, deal with a variety of items of general use. They sell products mostly required by people for their daily use. For example, in a variety store you can find different items on toiletry, hosiery, biscuits and snacks items, grocery, cosmetic, gift items and stationery, etc. Normally these retailers make direct sale by cash only. However, for their regular customers, these retailers may give discount, provide credit facility and also deliver purchased goods at the customer’s house free of charge.

**b. Single line store**

These stores deal with a specific line of goods. You must have seen medicine shops, bookshops, toy shops, ready-made garment shops, etc. These are all single line stores. They sell goods of different size, brands, designs, styles and quality of the same product line.

**c. Speciality store**

These stores deal with products of specific brand or company. All varieties of any particular brand or manufacturers are made available in these stores. You must have seen stores, like
woodland shoe shops where products starting from shoe to apparel produced by woodland company are made available to the customers.

**Intext Questions 20.4**

Match the columns:

<table>
<thead>
<tr>
<th>Column A</th>
<th>Column B</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Super Bazar</td>
<td>(a) Deals in goods of one brand only.</td>
</tr>
<tr>
<td>(ii) Itinerant retailer</td>
<td>(b) Sell different varieties of the same product line.</td>
</tr>
<tr>
<td>(iii) Speciality Store</td>
<td>(c) Large variety of goods of general use.</td>
</tr>
<tr>
<td>(iv) Variety Store</td>
<td>(d) Large-scale retail trade.</td>
</tr>
<tr>
<td>(v) Single Line Store</td>
<td>(e) Sell articles on carts.</td>
</tr>
</tbody>
</table>

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**20.7 What You Have Learnt**

- Channel 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 with goods in bulk quantity. They sell goods to retailers and in some cases directly to consumers.
- Wholesaler performs the functions of collection and storage of goods, distribution, financing and risk taking.
- Retailers are the middlemen who buy goods from wholesalers or producers and sell them to consumers. They deal in goods in small quantities.
- Retailers perform the functions of buying, assembling and storage of goods, provide credit facility, render personal services, take risk, display the goods in stores or showrooms and also provide market information to the producers.
- Retail trade may be classified as small-scale retail trade and large-scale retail trade.
- Small-scale retail trade includes itinerants retailing or fixed shop retailing.
- Large-scale retail trade includes Departmental store, multiple shops and super bazaar where transactions take place in large volume.

**20.8 Terminal Question**

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) What is meant by ‘itinerant retailing’?

7) Explain the role of retailers in distribution of goods.

8) State any five differences between wholesalers and retailers.

9) Describe the different types of fixed shop retail trade.

10) Explain any two functions of wholesaler.

20.9 Key to Intext Questions

20.1 (i) channel of distribution, (ii) middleman, (iii) indirect, (iv) direct, (v) retail stores

20.2 (i) False, (ii) True, (iii) True, (iv) False, (v) False

20.3 A. i. R

ii. W

iii. W

iv. W

v. R

B. i. Any two of the followings:

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

ii. a. 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

a. charges reasonable price

b. provides after sales services

c. provides variety in goods according to our tastes and preferences

d. provides facilities like credit sales, home delivery etc.
20.4  (i)  d  
(ii)  e  
(iii)  a  
(iv)  c  
(v)  b

**Activity For You**

In your own locality, find out:

- Where can you buy goods directly from producers?
- Which shops get the goods from the wholesalers?
- Which retailers stock the goods of only one producer?