



Chapter 21

Channels of Distribution

- Section 21.1 Distribution
- Section 21.2 Distribution Planning

Distribution

Key Terms

channel of distribution

intermediaries

wholesalers

rack jobbers

drop shippers

retailers

brick-and-mortar

retailers

e-tailing

agents

direct distribution

indirect distribution

Objectives

- Explain the concept of a channel of distribution
- Identify channel members
- Compare channels of distribution for consumer and industrial products

Distribution

Graphic Organizer

As you read this section, write in the routes taken to distribute products to consumers (A-E) and to industrial users (A-D).

Consumer Products	Industrial Products
A.	A.
B.	B.
C.	C.
D.	D.
E.	

Distribution: How It Works

channel of distribution



The path a product takes from its producer or manufacturer to the final user.


The **channel of distribution** ◀ is the path a product takes from producer to final user.

When a product is purchased for business, the final user is an industrial user. When a product is purchased for personal use, the final user is a consumer.

Distribution: How It Works

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Channel Members

intermediaries



Businesses involved in sales transactions that move products from the manufacturer to the final user; also known as middlemen.

Businesses involved in sales transactions that move products from the manufacturer to the final user are called **intermediaries** or middlemen.

They reduce the number of contacts required to reach the final users.

Channel Members

Intermediaries are classified on the basis of whether they take ownership of goods and services:

- Merchant intermediaries take title, agent intermediaries do not.
- Agents are paid a commission.

Channel Members

The two major types of merchant intermediaries are:

- Wholesalers
- Retailers

Channel Members

wholesalers



Channel of distribution that obtains goods from manufacturers and resells them to industrial users, other wholesalers, and retailers.

rack jobbers



Wholesalers that manage inventory and merchandising for retailers by counting stock, filling it in when needed, and maintaining store displays.

Wholesalers ◀ are businesses that buy large quantities of goods from manufacturers, store the goods, and then resell them to other businesses.

Rack jobbers ◀ are wholesalers that manage inventory and merchandising for retailers.

Channel Members

drop shippers



Businesses that own the goods they sell but do not physically handle the products.

Drop shippers ◀ sell bulk goods that require special handling to customers, but have the producer ship directly to the consumer.

Channel Members

retailers



Channel of distribution that buys goods from wholesalers or directly from manufacturers and resells them to the consumer.

brick-and-mortar retailers



Traditional retailers that sell goods to customers from physical stores, rather than over the Internet.

Retailers ◀ sell goods to the final consumer for personal use.

Brick-and-mortar retailers ◀ sell goods to the customer from their own physical stores, which are stocked with products they buy from manufacturers or wholesalers.

Channel Members

e-tailing



Retailers selling products over the Internet to the customer; also known as online retailing.

Other retailing methods include:

- Automatic retailing (vending machines)
- Direct mail and catalog retailing
- TV home shopping
- Online retailing, also called **e-tailing** ◀

Channel Members

1-800-882-4323 | Log In | Order Status | Customer Service | Catalog Quickshop | Shopping Bag (0 items)

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An e-tailer uses a Web site to sell products.

Channel Members

agents



Intermediaries who bring buyers and sellers together and do not own the goods they sell.

Agents act as intermediaries bringing buyers and sellers together. There are two main types:

- Manufacturers' representatives
- Brokers

Manufacturers' representatives are paid on commission.

Brokers negotiate for a single manufacturer.

Direct and Indirect Channels

direct distribution



Sales of goods or services directly to the customer, with no intermediaries.

indirect distribution



Sales of goods or services to the customer through one or more intermediaries.

Direct distribution ◀ occurs when the producer sells goods or services directly to the customer without intermediaries.

Indirect distribution ◀ involves one or more intermediaries.

Channels in the Consumer and Industrial Markets

Different channels of distribution are generally used to reach the customer in the consumer and industrial markets. Despite the potential for success that any product may seem to have, it can fail if the wrong channels of distribution are used.

Distribution Channels for Consumer Products and Services

The Manufacturer/Producer to Consumer channel is called direct distribution. Few consumer products are marketed using direct distribution because consumers have become accustomed to shopping in retail stores.

Distribution Channels for Consumer Products and Services

The five different ways of direct distribution are:

- Sell products at the production site
- Have a sales force call on consumers at home
- Use catalogs or ads to generate sales
- Sales representatives phone consumers
- Use the Internet to make online sales

Distribution Channels for Consumer Products and Services

The most common channel in the consumer market is Manufacturer to Retailer to Consumer because consumers have become accustomed to buying from retail stores.

Distribution Channels for Consumer Products and Services

The Manufacturer to Wholesaler to Retailer to Consumer channel is used for staple goods, which are items that are always carried in stock and whose styles do not change frequently.

Distribution Channels for Consumer Products and Services

The Manufacturer to Agents to Wholesaler to Retailer to Consumer channel works for producers who prefer to concentrate on production and leave sales and distribution to others.

Distribution Channels for Consumer Products and Services

The Manufacturer to Agents to Retailers to Consumers channel works for producers who do not want to handle their own sales to retailers. The agent simply brings the buyer and seller together.

Distribution Channels for Industrial Products and Services

The least used channel in the consumer market, direct distribution, is the most used channel in the industrial market.

The Manufacturer to Industrial Distributors to Industrial Users channel is used most often for small, standardized parts.

Distribution Channels for Industrial Products and Services

The Manufacturer to Agents to Industrial Distributors to Industrial Users channel works for small producers who do not have time or money to invest in a direct sales force.

Also, the channel is used when a producer does not want to hire its own sales force.

The slide features a large green chalkboard with a red border. At the top center, a red banner contains the text "SECTION 21.1 REVIEW" in white. The chalkboard is decorated with yellow spiral lines at the corners. The background has a red top section and a yellow bottom section with a blue wavy border.

SECTION 21.1 REVIEW

SECTION 21.1 REVIEW

PLAY

- click twice to continue -

Distribution Planning

Key Terms

exclusive
distribution

integrated
distribution

selective
distribution

intensive
distribution

e-marketplace

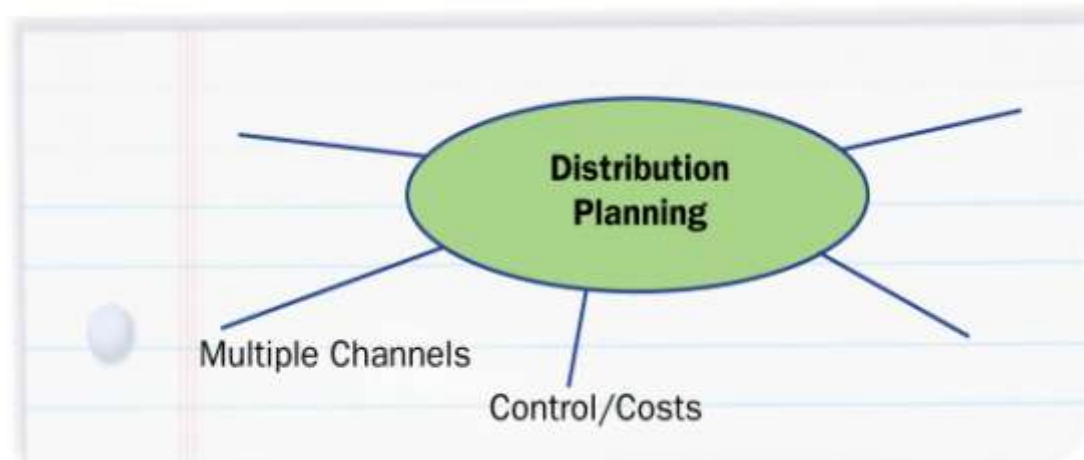
Objectives

- Explain distribution planning
- Name and describe the three levels of distribution intensity
- Explain the effect of the Internet on distribution planning
- Describe the challenges of distribution planning for international markets

Distribution Planning

Graphic Organizer

In a chart like this one, note the main components of distribution planning.



Understanding Distribution Planning

Distribution planning involves decisions about a product's physical movement and transfer of ownership from producer to consumer.

Multiple Channels

A producer uses multiple channels when its product fits the needs of both industrial and consumer markets.

Control Versus Costs

All manufacturers must weigh the control they want to keep over the distribution of their products against costs and profitability.

Control Versus Costs

A direct sales force is costly, but the manufacturer has complete control over them through sales quotas and employee monitoring.

The relative cost of using agents can be lower than hiring an in-house sales staff.

Distribution Intensity

exclusive distribution



Sales involving protected territories for distribution of a product in a given geographic area.

Distribution intensity has to do with how widely a product will be distributed. **Exclusive distribution** involves protected territories for distribution of a product in a given geographic area.

Distribution Intensity

integrated distribution



A distribution system in which manufacturers act as wholesaler and retailer for their own products.

selective distribution



A limited number of outlets in a given geographic area are used to sell the product.

Integrated distribution ◀ involves manufacturers owning and running their own retail operations. The producer acts as wholesaler and retailer for its own products.

Selective distribution ◀ means that a limited number of outlets in a given geographic area are used to sell the product.

Distribution Intensity

intensive distribution



Sales involving the use of all suitable outlets to sell a product.

e-marketplace



The online shopping location where products are sold to customers and industrial buyers through the use of the Internet.

Intensive distribution ◀ involves the use of all suitable outlets to sell a product. The goal is complete coverage and to sell as much as possible.

E-commerce is the means by which products are sold through the Internet. The online shopping location is called the **e-marketplace** ◀.

Legal and Ethical Considerations in Distribution

The American Marketing Association (AMA) Code of Ethics lists the following responsibilities in the area of distribution:

- Not manipulating the availability of a product for purpose of exploitation
- Not using coercion in the marketing channel

Legal and Ethical Considerations in Distribution

- Not exerting undue influence over the reseller's decision whether to handle the product

The Clayton Antitrust Act of 1914 prevents exclusive arrangements that lessen competition, create a monopoly, or act on involuntary agreements.

Distribution Planning for Foreign Markets

Foreign market environments require that businesses adjust their distribution systems. They also give businesses a chance to experiment with different distribution strategies.

Cultural considerations should also be weighed when planning distribution in foreign markets.

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SECTION 21.2 REVIEW

SECTION 21.2 REVIEW

PLAY

- click twice to continue -

FOCUS on KEY POINTS

Section 21.1

- Manufacturers or producers may choose one or more paths (channels) to distribute products to the final user.
- The consumer channels used to distribute products usually differ from those used to distribute to the industrial market.

continued

FOCUS on KEY POINTS

Section 21.2

- Manufacturers or producers may use multiple channels of distribution to reach different markets. Product distribution in foreign markets requires special planning.
- Distribution intensity may be exclusive, selective, or intensive.



This chapter has helped prepare you to meet the following DECA performance indicators:

- Complete inventory counts.
- Orient new employees.
- Explain distribution issues and trends.
- Demonstrate orderly and systematic behavior.



CHAPTER 21 REVIEW

CHAPTER 21 REVIEW

You are X.

Start by picking a square. If you answer correctly, you win that square. If your answer is incorrect, O gets the square.

PLAY

- click twice to continue -