

## Quadrant II - Notes

**Paper Code: COG105**

**Module Name: Physical Distribution - Meaning and Elements**

**Channels of Distribution- Meaning and Types**

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### PHYSICAL DISTRIBUTION- MEANING

The movement of finished items from a company's distribution and fulfillment network to the end customer is referred to as physical distribution. Physical distribution in commerce includes warehousing, inventory control, order processing, retail fulfillment, and shipping, among other commerce supply chain tasks.

The basic elements of specific functions that make up physical distribution include (i) Materials handling; (ii) inventory planning and control ; (iii) order processing ; (iv) transportation .

#### (i) Materials handling

It entails transferring goods in and out of a warehouse. It consists of routine tasks that can be automated and standardised to be completed. The use of computerized data processing to control conveyor systems, order picking, and other traffic problems improves efficiency. Modern automated handling services and protective packaging have increased customer service while simultaneously lowering physical distribution expenses. Order processing and consignment movement have also been sped up thanks to material handling and packaging services.

#### (ii) inventory planning and control

Inventory is the stock of products that a company has on hand and ready to sell to customers. Inventories are kept in order to meet market demands as soon as possible. Inventory is the link that connects customer orders and the company's manufacturing activity. In fact, inventory management revolves around the entire physical distribution management. Inventory management is at the heart of the physical distribution game.

#### (iii) order processing

Order processing and inventory control are intertwined. Order processing is regarded as the key to providing excellent customer service and satisfaction. Receiving, recording, filling, and assembling products for dispatch are all part of the process. The time required between the receipt of an order and the dispatch of goods must be reasonable and as short as possible. It entails carrying out the processes required to process specific orders quickly, accurately, and efficiently. The marketing manager must make a decision on these, as well as other issues such as what is the most efficient way to bill customers and how to reduce paper work. And how can the physical fugue be avoided?

#### (iv) transportation

It is a necessary component of physical distribution. It entails combining the benefits of each mode of transportation by using containers and physical handling procedures to allow transfers between different types of carriers. For example, placing containers in railway flat cars and then loading them on motor vehicles is known as "piggy back," and offloading containers to water carriers is known as "flash back." Container exchanges between air and truck carriers are known as "air truck" or "birdy back."

The marketing manager has to decide to (i) what mode or combination of modes of transportation (rail, truck, pipeline, water ways or air) should be used to transport products to warehouses and from there to customers? (ii) Should the transportation cost be reduced and the desired levels of customer service still maintained.

- **What is a channel of distribution?**

A channel of distribution in marketing also known as a chain of distribution or marketing channel is a business chain or intermediaries through which the manufacturer or producer passes his products to the final consumer. Usually, the manufacturer cannot effectively get his goods to the buyer or the final consumer without the help of middlemen. Channels of distribution can include agents, wholesalers, retailers, and also the internet.

Channels of distribution are part of the process of the manufacturer reaching his goods to the final consumer, which is the downstream process. It helps to answer the question that relates to how to get these products to the final consumer. This channel is also referred to as placement, and it is part of the marketing strategies of a company. It is certain that marketing strategies include product, promotion, price, and place.

#### **Types of channels of distribution**

A manufacturer can decide to sell his products to the final consumers either directly or indirectly. In the case of direct distribution, the manufacturer has an option of using a short channel that consists of few intermediaries, or he can involve a large number of intermediaries. The different types of distribution channels have different numbers and types of middlemen. There are basically two types of channels of distribution namely the direct and indirect channels. However, there is a third type called the hybrid channel.

#### **Direct channel (zero level channel)**

A direct channel of distribution is the shortest and simplest channel through which a manufacturer passes his products to the final consumer. It does not involve any middleman and because of this, it creates a good and direct relationship between the manufacturer and the consumer. A direct channel takes the shortest route to the final consumer. This happens when the producer directly sells certain goods such as industrial machines directly to the consumers. Also, through the direct channel, the producer sells expensive goods such as computers and luxury vehicles directly to consumers. Some of these producers set up their own mail order departments to enable them to sell their products directly to the consumers.

The direct distribution channel is a key indicator that the producers are taking steps to approach the consumers directly. While this is possible for certain goods, it does not apply to every type of goods. It still indicates that the services of intermediaries are often relevant and important in the process of distributing goods to the final consumers.

### **Indirect channel**

In the indirect channel of distribution, the manufacturer carries out distribution through third parties who are the intermediaries. A firm can design more than one channel and we classify these channels based on the number of intermediaries that exist between the producer and consumer. These intermediaries are the sales agents that distribute the goods while retailers sell directly to the final consumers.

The indirect distribution channel is divided into four levels namely;

- One level channel
- Two-level channel
- Three-level channel
- Four level channel

### **One level channel**

This distribution channel only involves one intermediary who moves goods from the producer to the consumer. The intermediary involved in one level channel is the retailer and this channel enables the producers to maintain control and approach a large number of potential customers as well as the process of distribution. The manufacturer transfers the title and risk to the retailers who sell these goods to the consumers. This in turn gives the manufacturer some relief from the burdens of selling the goods to the consumers all by himself.

This form of indirect distribution suits the distribution of consumer durables and products that possess high value. Some of these products include refrigerators, washing machines, and industrial products.

### **Two-level channel**

The two-level channel of distribution involves two intermediaries reaching the goods of the producer to the final consumer. These two intermediaries are the wholesalers and retailers, they are the link between the manufacturer and the final consumer. It is the most common and traditional channel which enables the manufacturer to cover a large market area. When the producer transfers or sells his products to the wholesaler, the wholesaler then sells these products to the retailers. Finally, the retailers sell them to the end consumer.

This channel is the best fit for the producers that have limited finance, producers with a narrow product line, and those who need expert services and promotional support from wholesalers. Also, it is mostly suitable for those products that possess a widely scattered market.

### **Three-level channel**

This channel is very long, it involves three intermediaries/middlemen. These intermediaries are agents, wholesalers, and retailers. The producer uses this channel when he wants to fully relieve himself of the challenges of distribution by handing over his entire product to sales agents. These agents, in turn, distribute these products to few wholesalers. Each wholesaler on the other hand will distribute the product to a number of retailers who will finally sell it to the final consumers.

What usually happens here is that manufacturers appoint and use agents to get in touch with the wholesalers and retailers. This channel is also suitable for producers with a limited product line and customers that are spread over a wide geographical area. It is as well suitable for a wider distribution of various industrial products.