AS Business
Place

Distribution Channels

Definition: The route/chain/path taken by a product as it passes from producer to the ultimate/final consumer. The more distribution channels a business has means they have the ability to reach a wider potential market.

Manufacturer – agent – wholesaler – retailer – consumer

Wholesalers 'break bulk' - they buy in large quantities from manufacturers and break into smaller quantities for retailers.

The choice of distribution channel is decided by cost, type of product, market coverage (to get a wide coverage intermediaries might be necessary) and control (a firm has less control if intermediaries are used).

- The **traditional approach** is for wholesalers to buy in bulk, reducing the need for producers to make small deliveries to retailers and providing a fast supply service to retailers who do not have the facilities to hold large stocks (such as village shops).
- The **modern approach** is for large retailers to have regional warehouse systems and the size to buy in bulk directly from producers (such as Sainsbury's). Producers also use it to sell directly to consumers using mail order (for example, clothes), telephone sales (such as insurance) and the Internet (for example, DVDs).
- **Retailing** can take many forms: department stores (John Lewis), supermarkets (Tesco), out-of-town speciality stores (IKEA), town centre speciality stores (Clarks' shoes), convenience stores (One-Stop) and showrooms (DFS). Over the past few years there has been a growing trend towards out-of-town shopping centres, retail parks, on-line shopping, call centres, second-hand shops and diversification.

Pros and Cons of Various Distribution Channels

Factory – businesses own retail stores/showrooms – customer's home

- Direct control over the whole process. Easier to maintain quality of service and ensure customer satisfaction at each stage. Use their own staff who are likely to be well-trained. Enables a business to keep a greater share of the profit.

Factory – independent retailers – customer

- The business does not have to bear the cost of the retail outlet. Allows the products to be displayed to a much wider potential market on a nationwide basis.

Agents

Definition: Agents do not take ownership of the goods. They are not employed by a business but represent it and try to gain sales. They are often used to enter overseas markets. Examples are travel agents, ticket agents and agents used by footballers and actors.

Why use them when operating abroad:

- ☑ To negotiate sales on behalf of a seller.
- ☑ A link between those providing a good or service and those wishing to buy them.
- ☑ Can help a business when they are unsure about the trading practices and legal requirements in the countries in which they hope to trade.
- ☑ Will reduce the risk a business is taking when trading abroad.