

FORM THREE – BUSINESS STUDIES

TOPIC FOUR – CHAIN/CHANNELS OF DISTRIBUTION

Introduction

- Channels of distribution are the paths that goods and or services follow from the producers to the final users.
- The persons involved in the distribution of goods from the producer to consumer are called middlemen or intermediaries.
- There are different channels that different products follow. Some of the channels include the following:
 - (i) Producer to agent to wholesaler to retailer to consumer.
 - (ii) Producer to co – operative society to marketing board to wholesaler to retailer to consumer.
 - (iii) Producer to marketing board to wholesaler to retailer to consumer.
 - (iv) Producer to wholesaler to retailer to consumer.
 - (v) Producer to wholesaler to consumer
 - (vi) Producer to retailer to consumer
 - (vii) Producer to consumer

Costs incurred by middlemen while distributing goods

- a) **Buying costs.** They incur this cost by paying for them from the producers or other middlemen.
- b) **Transport cost.** Some middlemen do transport goods from the producer to other middlemen or to the final users.
- c) **Storage costs.** Middlemen do keep the goods until their demand arises. This will therefore require them to hire or construct their own warehouses.
- d) **Advertising or marketing costs.** Some middlemen do carry out marketing of goods on behalf of the producers and other middlemen. In the process, they pay for such services.
- e) **Insurance costs.** Middlemen do insure the goods they are trading in to ensure compensation in the event of loss.
- f) **Operation costs.** Middlemen just like other businesses do incur operating costs such as salaries to employees, electricity, maintenance among others.
- g) **Preparation costs.** Some middlemen to prepare goods before they are sold to the consumers. Such activities include packing, assembling and blending. They have to meet such costs on behalf the producer, other middlemen and consumers.

CHANNELS OF DISTRIBUTING VARIOUS PRODUCTS (refer to Inventor book three pages 50 to 53)

ROLES OF MIDDLEMEN

The following are some the roles performed by middlemen in the chain of distribution

- (i) **Bulk accumulation (assembling).** They similar goods from different producers in small quantities and then offering the large amount gathered to buyers who may want to buy in large volumes.
- (ii) **Reducing transactions.** The interactions between the producers and the consumers will be reduced since the middlemen are the ones who will be communicating to the consumers.
- (iii) **Bulk breaking.** They buy in large quantities and then sell in small quantities as desired by the consumers.
- (iv) **Risk taking.** They assume all the risks related with the movement of goods from the producers to the consumers. Such risks include theft, damages, loss due to bad debts.
- (v) **Finance provision.** Middlemen provide finance to the producers by buying goods in large quantities and paying for them in time.
- (vi) **Provision of information.** Middlemen gather market information from the consumers then pass to the producers who in turn produce goods in line with the tastes of consumers.
- (vii) **Marketing/product promotion.** Middlemen are involved in marketing of goods hence stimulating the interest of consumers.
- (viii) **Provision of transport.** Middlemen do transport goods from the producers up to the where the consumers can access them. Both the producers and consumers are hence relieved of transport costs.
- (ix) Storage
- (x) Variety provision
- (xi) Availing goods to consumers

FACTORS TO CONSIDER BEFORE SELECTING A DISTRIBUTION CHANNEL

Factors that influence the choice of a distribution channel include the following:

- (i) **Product nature.** Perishable products should be sold directly to the consumers because delays may result to losses since they go bad fast. In addition, bulky products need direct selling in order to reduce transportation and stock handling costs.
- (ii) **Nature of the market.** Where the market is concentrated in one area, direct selling is appropriate. A longer channel of distribution is preferred where the market is widely spread.
- (iii) **Role of intermediary.** The channel chosen should be able to perform the services related to the product being sold e.g. for technical goods, the middleman should be able to offer technical support to the customers.
- (iv) **Resources and size of the firm/producer.** If the producer is small, then direct selling would be appropriate. Large firms with sufficient financial resources can opt for long channels of distribution.

- (v) **Channels used by competitors.** If a firm wants its products to compete with those of the competitors, then it is prudent to use similar channels. A firm that wants to avoid competition should use a different channel of distribution.
- (vi) **Government policy.** The channel chosen should be able to meet government regulations such as all middlemen distributing pharmaceutical products must be recognized by the relevant government bodies (Pharmacy and Poisons Board).
- (vii) **Marketing risks.** In the event the firm wants to avoid risks related to distribution, it will opt for middlemen.

Questions

1. State four channels for distributing imported goods.
2. Explain five factors that can influence the choice of a channel of distribution.
3. Outline five costs incurred by middlemen in the distribution process.
4. Describe the roles played by middlemen in the distribution chain.
5. Outline the circumstances under which a producer would sell directly to consumers.