UNIT-IV
PRICING AND DISTRIBUTION CHANNELS

1. What is price? What are the factors that affect the pricing decision?

Ans. Price means the amount at which the product is valued. It is key element in the marketing mix because it relates directly to the generation of total revenue.

According to Philip Kotler—"It is the only element in the marketing mix that produces revenue, the other elements produce costs. Price is also one of the most flexible elements of the marketing mix that can be changed quickly, unlike product features and channel commitments. At the same time, pricing and price competition are the number one problem faced by many marketing executives."

Factors affecting pricing decisions: The factors influence pricing decisions may be divided into two categories:

(1) Internal factors and

(2) External factors.

(1) Internal Factors: Internal factors are those factors that are under control of the organization. These factors are:

(i) Cost of Product: Cost of product plays an important role in pricing decision. If the product cost is high the price also remains high and cost of product is minimum price is also low. Various cost related policies like, cost-plus method, marginal cost-method, target cost pricing etc. are directly influence pricing, policy of a product.

(ii) Pricing Objectives: Various pricing objectives influence pricing decisions. These objectives may be classified into:

(a) Stability in prices (b) Meeting competition (c) To earn maximum profit (d) Target rate of return (e) Increase of the share of the market

Any one or more of the objectives listed above would be kept in mind before price fixation.

(iii) Marketing-Mix: Price is only one of marketing mix. But it is closely related with other elements of marketing mix. Other elements, i.e., product, promotion and place also effects pricing decisions in long-time.

(iv) Product life cycle: The different stages of PLC Introduction, growth, maturity, saturation and decline affect pricing decision. In introducing stage, product price should be low, in growth the product has high price and in maturity and decline stage, product may have comparatively low price.

(2) External Factors: External factors are beyond the control of an organization but they affect pricing of a product. These factors are:

(i) Estimating Demand: Price and demand has inverse relationship. Various degrees of elasticity of demand affect the price fixation of the product. For example, in case of elastic demand, marketers make minimum change in price but, for inelastic demand producers realize maximum profit with high price.

(ii) Competition: Competitive conditions affect the pricing decision. In this situation marketers can fix the price equal to or lower than the competitor's price. For example, cosmetic products have a wide range of such types of products.

(iii) Distribution Channels: Distribution channels also affect the pricing decision. If channel of distribution is long, the prices will be fixed higher making an allowance for the distribution expenses made by each middleman. If on the Contrary, channel is short, prices may be fixed lower.

(iv) Economic Environment: In money inflation the price are increased to cover the increasing cost of production and distribution. On the other hand, the prices are reduced in recession period.

(v) Government Policy: Government policies such as control of prices, levying of taxes, no profit no loss price, etc. are also affect the pricing of product. Sometimes, government starts selling through fair price shops and bound to producers to fix lower price in favour of public welfare.

2. Explain the significance/importance of pricing.

Ans. Pricing decisions can have very significant consequences for the organization. It is an important factor of marketing mix which affects an organisation's profit. Price has a psychological impact on consumers. Some specific importance of price on marketing may be noted as under:

(i)Flexible Element of Marketing Mix: Price is the most adjustable aspect of the marketing mix. Prices can be changed rapidly, as compared to other elements like product, place or promotion. Changes in product design or distribution system would take a long time to be implemented. Therefore it is a very important component of marketing mix.

(ii)Right Level Pricing: The wrong price decision can bring about the downfall of a company. It is extremely significant to fix prices at the right level after sufficient market research and evaluation of factors like competitors' strategies, market conditions, cost of production, etc.
In order to maintain balance between profitability and volume of sales, it is important to fix the right price.

(iii)Price Creates First Impression: Often price is the first factor a customer notices about a product. While the customer may base his final buying decision on the overall benefits offered by the product, he is likely to compare the price with the perceived value of the product to evaluate it. After learning about the price, the customers try to learn more about the product qualities. Therefore price is a critical factor that influences a buyer's decision.

(iv)Vital Element of Sales Promotion: Being the most flexible component of marketing mix, price is the most important part of the sales promotion. In order to encourage more sales, the marketing manager may reduce the price. In case of goods whose demand is price sensitive, even a small reduction in price will lead to higher sales volume. However prices should not be fluctuated too frequently to stimulate sales.

(v) Influences Demand Level: The chosen price directly influences demand level and determines the level of activity. A price set too high or too low can endanger the product's development.

(vi) Determines the Profitability: The selling price directly determines the profitability of the operation, not only by the profit margin allowed, but also through quantities sold by fixing the conditions under which fixed costs can be recovered over the appropriate time horizon. Thus, a small price difference may have a major impact on profitability.

(vii) Means of Comparison: More than any other marketing variable, the price is an easy means of comparison between competing products or brands especially when there is hardly any brand differentiation. The slightest change in price is quickly perceived by the market, and because it is so visible it can suddenly overturn the balance of forces.

3. Explain the products pricing strategies or methods.

Ans. The selection of a correct price is a complicated task of marketing managers because marketing objectives could only be realized through proper pricing policies. The various pricing policies are discussed as below:

(i) Cost oriented pricing policy: It is also called as cost-plus pricing policy. Under this method, the cost estimate of the product is made and a margin of profit is added to it to determine the price. The margin is known as Mark-up' and cost plus pricing is also known as Mark-up-pricing". Fixing a tentative price is easier under this method. But, this policy is completely overlooks the influences of competition and market demand. A formula is used in cost plus pricing:

Selling Price = Total Cost + Desired Profit

(ii) Demand-Oriented Pricing Policy: Demand oriented pricing policy makes under consideration of consumer's demand. A high price is fixed when the demand increases, and a low price is charged when the demand is low.

(iii) Competition-oriented Policy: Under competition-oriented policy, marketer decides the prices of his products after careful study of the competitive prices. There is no any rigid relation between cost and demand of the product because, firms maintains its price according to their competitive price.

(iv) Leader Pricing Policy: Under leader pricing policy firms try to capture the market by setting up a low price for a popular product. This is also known as 'Loss Leader Pricing'. On the other hand, a high price may be fixed for a prestigious product to improve the image. This prestigious pricing is known as 'profit leader pricing

(v)A Penetration Pricing Policy: The basic objective of penetration pricing is to help the product penetrate into markets to hold a position. The price of the product is kept at a low level until such time as the product is finally accepted by the customers. Such a policy is adopted to capture a market share from a competing product.

(vi) Skimming the Cream Pricing Policy or Prestige Pricing Policy: Under this policy, a very high price is fixed by an industrial enterprise for its products at the very outset. Thus this policy involves the setting of a very high initial price of the product the market and then reducing the price gradually as the competitors enter the field.

(vii) Bait Pricing Policy: This is a very interesting pricing policy. Under this policy, two products are manufactured. The price of one product is kept low and the price of another product is kept high. When a consumer comes, low price product is presented before him and when he shows some interest in buying this product, the product of high price is presented before him and the merits of high price product are explained to him. Thus, efforts are made to sell high price product by initially showing low price product. Low price products are products only to bait the consumers.

(viii) Psychological Pricing Policy: Under this policy, some manufacturers fix the prices of their products in the manner that it may create an impression in the mind of consumers that the prices are low. For example, the prices of shoes of Bata are determined as Rs. 19.95, 29.95, 39.95 and so on.

(ix) Discount Pricing: A pricing strategy that offers products and services at a reduced price. Discount prices can come in the form of trade discounts, cash discounts, seasonal discounts, rebates, etc.

(x)Price Policies based on Geographical Conditions: The manufacturers sometimes adopt different prices in different markets without creating any ill-will among customers. For example, the price of a product may be different for eastern States and northern States, cities and hilly areas. The prices for delivering a product at places of a State may also be different. Petrol and diesel are priced in this way depending on the distance from the storage area to the retail outlet.

4. What is Channels of Distribution? Explain its importance.

Ans. A channel of distribution is an organised network or a system through which producers flow their products to the market. It combines all the activities required to link producers with consumers and consumers with producers to accomplish the marketing task. The selection of most appropriate channel of distribution is an important strategic task because, it is so important to make sure the availability of product more efficiently and economically.

According to Philip Kotler, “Marketing Channels are set of interdependent organisations involved in the process of making products or services available for use or consumption."

Role and Significance/Importance of Distribution Channels:

Distribution Channels perform a crucial role in the successful distribution and marketing of all products. They have various contacts, expertise and wider knowledge of the products. The rapidly growing markets and increasing complexities of distribution have increased the demand and requirement of the distribution channels.

The role of distribution channels can be summarised as follows:

(i) Distribution channels offer salesmanship: The distribution channels offer pivotal role of a sales agent. They help in creating new products in market. They specialize in word of mouth selling and promotion of products. They assure pre-sale and post-sale service to the consumers. Since these channels are in direct and regular contact with the consumers, they do salesmanship very well and at the same time provide true and valuable feedback to the producers.

(ii)Distribution channels increase distributional efficiency: The intermediary channels ease the sales process as they are in direct contact with the customers. They narrow down the gap between producers and consumers both economically and efficiently. These intermediaries reduce the number of transactions involved in making products available from producers to consumers. For instance, there are four producers who are targeting to sell their products to four customers. If there is no distribution channel involved, then there will be sixteen transactions involved. But if the producers use distribution channels, then the number of transactions involved will be reduced to eight (four from producer to intermediary and four from intermediary to customer), and thereby the transportation costs and efforts will also be reduced.

(iii)The channels offer products in required assortments: Just like the producers have expertise in manufacturing products, similarly the intermediaries have their own expertise. The wholesalers specialize in moving and transferring products from various producers to greater number of retailers. Similarly, the retailers have expertise in selling a wide assortment of goods in less quantity to a greater number of final customers. Due to the presence of distribution channels(wholesalers and retailers), it is possible for a consumer to buy the required products at right time from a store conveniently located(geographically closer) rather than ordering from a far located factory. Thus, these intermediaries break the bulk and meet the less quantity demand of the customers.

(iv)They assist in product merchandising: It is actually the merchandising by intermediaries which fastens the product movement from the retail shop desk to the customer’s basket. When a customer goes to a retail shop, he may be fascinated by the attractive display of some new product, may get curious about that new product, and he may switch over to that new product leaving his regular product. Thus merchandising activities of the intermediaries serve as a quiet seller at a retail store.

(v)The channels assist in executing the price mechanism between the firm and the final customers: The intermediaries help in reaching a price level which is acceptable both to the producers as well to the consumers.

(vi)Distribution channels assist in stock holding: The intermediaries perform various other functions like financing the products, storing the products, bearing of risks and providing required warehouse space.

Thus, the distribution channels are a vital constituent of a firm’s comprehensive marketing strategy. They assist in expanding product reach and availability, as well in increasing revenue.

5. Explain the different channels of distribution available to a business enterprise.

Ans. The Distribution Channels are classified into two main segment namely conventional (non-integrated) and non-conventional (integrated).

(A) Conventional Channels or Non-Integrated Channels: Conventional channels are the channels in which each enterprise operates separate and self owned channels on the basis of self-interest. The conventional channels of distribution could again be categorised into two categories—i.e., direct and indirect channel.

(i) Direct Channel /Zero Level Channel: It is a case when firms sell their products directly to customers without adopting any intermediary for example, Bata, sell their shoes directly, sale through mail order, Internet, Eureka Forbes sells all its water purifier directly without any intermediary, etc.

(ii)Indirect Channel: Indirect channel is one which employs the services of intermediaries in moving the goods to the consumers.

The whole process of indirect channel of distribution may be represented as follows:

(a) One level channel: In this only one intermediary is adopted i.e., the retailer. Firms directly supply the product to retailer who sells the product direct to customer for example, cars are sold through dealers, expensive watches through watch showrooms, etc.

(b) Two level channels: This is most commonly used distribution path where two intermediaries are adopted by firms to sell the products i.e., the wholesaler and retailer. The manufacturer sells the goods in bulk to wholesaler who sells in small lot to retailers who supply it to ultimate customers. Generally convenient goods such as soaps, salts etc. are sold through this path.

(c) Three level channels: In this path one more middleman is added so there are three intermediaries involved, these are distributors, wholesalers and retailers.

(B) Non-Conventional or Integrated Channels: Non-conventional channels or integrated channels are network in which channel components work with full co-ordination and well-organised manner (cohesion manner) rather than working in loose manner.

These integrated channels can be ‘vertical' and 'horizontal in nature

(i) Vertical Channels: Vertical integrated channels of distribution are those which are centrally planned and managed by professionals. These channels are rationalised and capital intensive networks designed to achieve technical, managerial and promotional economies through integration, co-ordination and synchronisation of marketing flows from the point of production to the ultimate consumer.

(ii) Horizontal Distribution Channel: Under Horizontal Distribution Channel two or more companies jointly distribute their product in the market, either by themselves or by creating an independent unit. The objective is that, to gain the maximum marketing opportunities. The examples of this kind are Associated Cement Company (ACC), Hindustan Lever Ltd. etc. The main reasons for horizontal marketing integration are: the ever changing markets, cut-throat competition, changing pace of technology, cyclical and seasonal changes in consumer demand etc.

6. Explain the various factors that influence the choice of channels.

Ans. The selection of the appropriate channels of distribution is an important task. A good distribution network helps to manufacturer to sell his products in lowest cost and at right time. The factors affecting choice of channels may be discussed as under:

(1) Product Considerations

(2) Market Considerations

(3) Manufacturer Considerations

(4) Middlemen Considerations

(5) Consumer Considerations

(1) Product Considerations: The nature and type of product influences the choice of distribution channels. It includes the followings:

(i) Unit Value: Unit value of a product does influence the distribution channel. If the product is of high value, shorter and costly channel may be used. If product is of low value, larger and cheap channels will be used for intensive distribution. For example, high value industrial products are sold directly, while FMCG products are sold by help of retailers.

(ii)Perishable Products: When product is of a perishable nature, shorter channel will be preferred. For example, fresh products and fruits, fashion products etc. are prefer for a short channels, While in non-perishable products, wide choice of channels may be made.

(iii) Bulk and Weight: In case of Bulky and heavy goods, shorter channels may be preferred in order to minimise physical handling of the product because transportation of such a product involves huge cost.

(iv) Product line: When a manufacturer manufacturing several products in the same product line, a shorter channel will be opt for broader this product line. It is economical for marketers.

(2) Market Considerations: The nature of the market is the important factor for influencing the choice of channels of distribution. Following features of market may influence the choice of channel for distribution:

(i) Size of Market: If size of market is large or spread over the whole Country, a number of middlemen's service may become essential to send the product to the widely dispersed consumer. Otherwise, where prospective customers are located in a particular region, direct selling is more feasible.

(ii) Nature of the Market: The nature of the market is the key factor to opt channels of distribution. If the product is intended for industrial market or industrial users, the channels of distribution will be a short one. For example, industrial user purchase in large quantities, they can purchase directly from the producer. But in case of product meant for the consumer, retailer may have to be employed.

(iii) Number of potential customers: If the number of potential customers is large, a number of middlemen's services will be needed and if it is small, the manufacturer may be able to sell directly by using his own sales force.

(iv) Order Size: In case of large order size, direct selling is convenient and economical, as in the case of food products, sales grocery chain stores. But where the product is sold in small quantities, middlemen are used to distribute such products.

(3) Manufacturer Considerations: Manufacturer considerations have an important impact on the selection of channels of distribution. These include:

(i) Financial Ability: Financial ability directly affects the choice of distribution channel. A financially strong manufacturer can distribute products by its own sales force or opening retail outlets. But a financially weak manufacturer which cannot invest huge money, therefore use middlemen to sell its output.

(ii) Desire for control of channels: When a manufacturer has a desire to control of channels will select a short channel of distribution even though it may be more costly.

(iii) Volume of production: If a big manufacturer manufacturing a wide range of products in large volume, he may sell his products by opening retail outlets in all over country. But a small manufacturer who produces small number of products will choose wholesaler and/or retailers to sell his products.

(4) Middlemen's Considerations: Middlemen's considerations are also influence the choice of distribution channels. These considerations are:

(i) Sales Potential: The channel which offers maximum sales volume is preferred over the channel offering little business. In long run it is very difficult to access which channel will sell largest sales volume.

(ii) Cost Consideration: A manufacturer considers cost of selling through alternative channels. In normal cases cheapest channels will be opted. But it does not mean that a middlemen charging high cost would be excluded from consideration. A manufacturer may select even a high cost channel who provides many services to the customers like, after sales service, credit facility, demonstration, return of product, replacement of product in case of defective etc.

(5) Consumer Considerations: Consumer considerations are too important for choice of distribution channels. A very large number of people prefer to buy from retailers. In the customer-oriented market the selection of channels depends on time, place and manner in which he desires. These considerations are:

(i) Number of Consumer: Usually, shorter channel is being used where small number of buyers but, for large order retail selling would be beneficial.

(ii) Consumer buying habits: Consumer buying habits like, again and again purchase, desire for credit, after sale service, door to door service etc. affect the channel choice. For example, in case of after-sale service direct selling or shorter channel will be preferred.

(iii) Size of the average sale : For small quantity and low priced items consumer makes very little effort to purchase like, matchbox, bread, soap, tooth paste etc., requires long intensive network of distribution channels for effective distribution of products and services.

7. Explain the functions of middlemen.

Ans. Some of the important functions which are usually performed by different channels of distribution or by middlemen are as follows:

(i)Price Stability: The middlemen help in stabilizing the prices by stocking goods, by assuring constant flow of goods in the market, etc. They also help in making goods available at right place, at right time and at reasonable rate. Hence, middle men create place, time and possession utilities to the products and maintain the prices of goods and services.

(ii)Promotional Activities: To attract consumers, many promotional activities like advertising, personal selling and sales promotion are performed by middlemen, wholesalers or retailers. These activities are performed by creating message content, appeals, sculpting the messages, etc. With this, the profit maximization of an organization takes place and the demand of the product increases.

(iii) Financing the producer: For day-to-day business, financing is necessary to purchase, store and transport the goods and services and to sell these on credit. The financing problem of producer can be solved by the channels of distribution. Here, the middlemen collect huge orders and purchase products in bulk from the manufacturers in cash. This enables the producers to undertake large-scale production and to adopt better techniques of production because they have no problem for finance.

(iv)Helpful in communication: The middlemen are connecting link between the producers and the buyers. They have complete knowledge of consumers' behaviour and the market and they communicate the necessary information to the producer so that they may produce products according to the needs and wants of the consumers.

(v)Matching Demand and Supply: The chief function of intermediaries is to assemble the goods from many producers in such a manner that a customer could affect purchases with ease. According to Wrote Alderson, "the goal of marketing is the matching of segments of supply and demand."

(vi)Helpful in Production Function: The producer can concentrate on the production function leaving the marketing problem to middlemen who specialize in the profession. Their services can be utilized best for selling the product. The finance required for organization marketing could profitably be used in production where the rate of return would be greater.

(vii)Negotiation: Middlemen negotiate with manufacturer as well as with customers on price, quality and guarantee. They help in transfer of ownership.

(viii)Risk taking: Middlemen maintain large stock of goods; they transport goods from one place to other so till goods are with them in stock or when these are transported from one place to other then middlemen bear the risk of spoilage or damage of goods.

8. What is Wholesale Trade? State its features. Explain the services of wholesaler.

Ans. Wholesale Trade refers to the trade in which goods are sold in large quantities. The person who carries on wholesale trade is known as wholesaler. Wholesaler buys the goods directly from the manufacturer in bulk and sells them in small lots to the retailer. A wholesaler acts as a middleman between the manufacturer and the retailer.

Features of Wholesale Trade

1. Wholesaler acts as a link between producer and retailer.
2. Wholesaler deals with large quantities of goods.
3. Wholesaler is generally specialised in one line of product. For example, stationery, food grains etc.
4. Wholesaler invests large amounts of capital in maintaining stock of goods.
5. Wholesaler generally sells goods in small lots to retailers and generally does not sell to the ultimate

Services of Wholesaler: A wholesaler provides many valuable services to the manufacturer as well as the retailer.

(I)Services to Manufacturer: Wholesaler renders the following services to the manufacturer:

(i)Economies of scale: Economies of scale refers to benefits of operating at a large scale. Wholesalers help the manufacturers to avail the benefits of large-scale operations as they buy goods in large quantity. They buy in bulk which enables the manufacturers also to produce in bulk and avail benefits of large-scale production.

(ii)Sales Promotion: Wholesalers employ a sales force to reach retailers located in far corners of the country. The salespersons of wholesalers perform the task of persuading the retailers to display and sell the goods at their retail outlets.

(iii) Market Information: The wholesaler provides information regarding the preferences and expectations of the customers to the manufacturer. He also collects information products of competitors, price of their product etc. Wholesalers make suggestions about types and quality of goods required by the consumers. Such information helps the producer to regulate production according to the changing requirements of the consumers. ,

(iv)Storage: Wholesalers provide facility of storage of goods by buying the goods in bulk. They relieve the manufacturer from maintaining the stock of goods. Wholesalers take responsibility of storage of goods and bear the risk of theft or spoilage etc.

(v)Financing: Wholesaler provides financial support to the manufacturer by buying the goods cash. Sometimes he pays in advance while placing order. Therefore manufacturers have to invest minimum capital in their business.

(vi)Concentration on Production: Wholesaler conducts market research to find out preferences of customers, he provides transport facility to move the goods and he also provides storage facility. Therefore the producer is free from these botheration and can concentrate on production only. The manufacturer can pay undivided attention to the main task of manufacturing.

(II)Services to Retailers: Wholesaler renders the following services to retailers:

(i) Variety: Retailers need to keep a wide variety of goods to meet the requirements of various customers. Wholesalers provide them a wide variety of goods in one line of products. It is very difficult for a retailer to approach different manufacturers directly. Wholesalers perform the task of sorting out and assembling goods from several manufacturers.

(ii)Regular Supply: Wholesaler maintains a large stock of goods. Therefore whenever a retailer requires goods, these can be immediately supplied from the warehouse. The retailer need not maintain a large stock, he can get the goods quickly and regularly from the wholesaler. Wholesaler acts as the warehouse keeper of retailers.

(iii)Financing: Wholesaler sells goods to retailers on credit. Therefore retailers need not maintain large working capital. They can make payment after receiving the payment from the customers.

(iv)Bearing: Wholesaler bears the risk of change in demand, risk of damage in transit, risk of theft or spoilage in warehouse etc. Retailers are relieved from all such risks as wholesaler bears these risks for retailers. Retailer is saved from the risk associated with transport or storage of goods.

(v)Transportation: Wholesalers arrange for transportation facility and deliver goods at the doorstep of the retailers. Sometimes wholesalers supply goods directly to customers as per the instructions of retailers.

9. What is Retail Trade? State its features. Explain the services of Retailer.

Ans. Retailer is the last link in the distribution chain. Retail trade refers to sale of goods in small lots to the final consumers. A retailer buys goods from a wholesaler and sells them to the consumer. So he acts as a link between the wholesaler and the ultimate consumer. Retailing need not necessarily be carried on in a shop or store. Retailing includes selling goods door to door, on television, on telephone, on Internet etc. A retailer may be defined as a dealer in goods and services who purchases from a manufacturer or wholesaler and sells to the ultimate consumers. The person who carries on retail trade is called a retailer.

Features of Retail Trade

1. Retailer is the last link in the distribution chain.
2. Retailer sells the goods or services directly to consumers.
3. Retailer deals with a variety of products.
4. Retailer buys and sells a small quantity of goods.
5. Retailer is generally located in residential areas.

6. Retailer maintains personal relations with the customers.

Services of Retailers: Retailers provide important services to consumers and wholesalers as they act as middlemen between them.

(I)Services to Consumers: Retailers provide the following services to consumers:

(i)Ready or Quick Supply: A retailer makes available to the customers all types of commodities. Consumers can conveniently buy the required products at one place. Consumers are assured of continuous supply of goods and they need not store the goods in large quantities.

(ii) Wide Variety: A retailer offers a wide variety of different types of products only under one roof. He also provides different brands of the same product so that consumers can buy the product of their choice.

(iii) Guiding Consumers: A retailer assists consumers in selecting the goods. In many large retail showrooms, salesmen are appointed who guide the customers in selection by explaining the features and use of different products.

(iv) Demonstration and After Sale Service: Retailers demonstrate the working of products to satisfy the customers. Retailers also offer after sale services to customers if needed in the case of consumer durable products such as TV, washing machine etc.

(v)Home Delivery: Some retailers make arrangement for supply of goods at the customer’s doorstep without any extra charges.

(vi) Convenient Location: Retail stores are located in residential areas as well as in the main market. The customer can easily approach a retail showroom for buying the goods.

(II)Services to Wholesaler and Manufacturer: A retailer provides the following services to wholesalers and manufacturers:

(i)Ready Market: Retailers provide a ready market for the goods of the wholesaler or manufacturer. They connect the wholesaler and customers and act as the last link for distribution of goods.

(ii) Providing Information: Retailers provide information to the wholesaler or manufacturer regarding the taste, expectations and demand of the customers. The retailers have direct contact with the customer so they know their expectations.

(iii)Risk Bearing: A retailer shares risks with the manufacturer and wholesaler by keeping stock of their goods.

(iv)Distribution of Goods to Distant Places: Retailers relieve the wholesalers and manufacturers from the burden of collecting and supplying small orders to widely scattered customers. Retailers help in distribution of goods to distant parts of the country.

10. Explain the different types of retailer.

Ans. Keeping in mind the size, product mix, pricing and service, retail trade can be classified into the following categories:

I. Itinerants Retailers.

II. Fixed Shop Retailers.

I. Itinerants: Itinerants refers to retailers who have no fixed place of sale. They move from one place to another in search of customers. They are also known as mobile vendors. Itinerants deal in low price, non-standard items. They deal in daily use items and require a small investment.

Itinerants can further be classified into the following categories.

(1)Hawkers and Pedlars: Hawkers and pedlars move from street to street in search of customers. A hawker carries the goods on wheeled carts or on the back of animals and a pedlar carries the goods on his own head or back. The main features of hawkers and pedlars are:

(i) They move from street to street, in buses, trains etc. in search of customers.

(ii) They sell a variety of goods such as fruits, vegetables, toys, bangles etc.

(iii) They deal with non-branded and local items.

(2)Periodic Market Traders: These traders sell their goods on fixed days in different market places. Their weekly markets are fixed. Main features of periodic market traders:

(i) They sell their goods in the weekly markets or monthly bazaars or annual fairs.

(ii) Generally they display their goods on temporary structures made outside the shops which are closed for a weekly holiday.

(iii) They deal in low price and low quality goods.

(3)Street Traders: These retailers display their articles on busy street corners, pavements, bus-stands etc. Main features:

(i) They generally operate near public places such as railway stations such as railway stations, cinema halls, bus-stand temples etc.

(ii) They deal in a variety of goods such as towels, handkerchiefs things of daily use, mirrors etc.

(iii) They deal in low-priced products of common use.

(4) Cheap Jacks: They display their goods in hired shops or in tents for a temporary period in different localities. Main features:

(i) They hire small shops or display goods in tent in residential colonies.

(ii) They shift from locality to locality depending upon the prospects of business.

(iii) They deal in low-priced, household articles.

(iv) They remain in one locality for a temporary period only.

II. Fixed Shops Retailer: The retailers having a fixed place of sale known as fixed shop retailers. These retailers have shops in the market place or residential localities. They do not move from one place to another in search of customers. Customers come to their shops in search of products. Fixed shop retailers can be further classified into two categories:

1. Small-scale Fixed Retail Shops
2. Large-scale Fixed Retail Shops.

1. Small-scale Fixed Retailer: Small-scale retailers are the most common form of retailers. These shops are found in every corner of most cities. They are mostly situated in localities to fulfil the needs of people residing in local areas. Small-scale fixed shops are of the following types:

(a) General Stores: General stores are small shops located in residential areas. Main features of general stores are:

(i) These stores deal in items of daily use like groceries, confectionery, stationery, soft drinks etc.

(ii) They have a large variety in each line of product.

(iii) They provide free home delivery, credit facility and other services to their regular customers.

(iv) They create personal relationship with the customers and keep them happy and satisfied.

(b) Speciality Stores: Single line stores are small shops which deal with one line of products. The main features of single line stores are:

(i) These stores deal with one line of products. Examples, garments line, stationery line textiles, medicines, shoes etc.

(ii) These stores deal in a variety of goods in that line of product. For example, stores dealing in garments have ladies garments, children garments, gents garments, garments of all sizes, brands etc.

(iii) They are generally situated in market places.

(c) Street Shops: These shops are situated at street crossings or on main roads or on corners of colonies. They are also known as street stalls. Main features of street shops are:

(i) These are temporary platforms used to display the goods for sale.

(ii) These shops have a limited space.

(iii) They deal in a wide variety of low-priced articles such as hosiery items, toys, magazines etc.

(iv) These retailers display their goods on tables, stands etc.

(d) Second-hand Goods Shops: These shops deal with second-hand goods or used articles such as books, utensils, furniture etc. Main features of second-hand goods shop:

(i) These shops sell used goods.

(ii) The goods are generally priced low because these are used goods.

(iii) They buy goods from private and public auctions.

(iv) These shops are mainly for the poor people, who cannot afford to buy new goods.

(e) Seconds Shops: There are the shops to sell goods which are not produced according to the required specifications. These goods always have some defects in them. Main features of second shops are:

(1) These shops deal in the products which have some manufacturing defect.

(ii) Goods sold in these shops are not used or second-hand. They are new defective goods.

(ii) Goods are sold at a heavily discounted price.

2. Large-scale Retailers: Large-scale retailers deal in a large stock of goods and purchase goods in bulk Features of large retailers are:

(i) They require a huge investment.

(ii) They have large size showrooms to sell goods.

(iii) They are generally located at a central place or in shopping centres,

The most common forms or types of large-scale retailers are:

(a) Departmental Stores (b) Multiple Shops or Chain Stores (c) Mail Order Retailing

(a) Departmental Stores: a departmental store is a large retail showroom having a number of departments under one roof, each department specialising in one line of product. Each of the departments is like a separate shop with centralised purchasing, selling and accounting. Administrative activities of the departmental scores are managed by a General Manager. The General Manager appoints departmental managers for each department.

Main Features of Departmental Stores:

1. Large Size: A departmental store is a large retail showroom requiring a large capital investment

2. Wide Range: A departmental store deals with a wide range of products from low priced to very expensive goods. Different varieties of goods are available in different departments.

3. Departmentally Organised: The store is departmentally organised. Goods offered for sale are classified and each department specialises in one line of product.

4. Central Purchases: Purchases of all the departments are made centrally. The departmental managers give a list of their requirements to the general manager who makes purchases for all the departments.

5. Central Location: A departmental store is located at a central place or in shopping centres so that people from different parts of the city can easily reach there.

(b) Multiple Shops/Chain Stores: Multiple shops refer to a number of identical retail shops located in different parts of the city. These shops are owned and controlled by a single organisation. These chain stores may be established by manufactures or traders. In USA, these shops are known as chain stores but these are popular as multiple shops in Europe. Examples: Bata stores, DCM stores, etc.

Features of Chain Stores/Multiple Shops:

1. Large Size: Chain stores operate on a large scale. A huge investment is required to set up identical shops in different parts of the city.

2. Specialised in One Line: Generally chain stores specialise in one line of product and variety of that line only is available at all the shops located in different areas. For example, Bata specialises in shoes, DCM in cloth etc.

3. Centralised Purchasing: The goods for all the chain stores are purchased by the head office to maintain the uniformity in products sold at different retail showrooms.

4. Decentralised Sale: Each chain store has its independent sales as these stores are located in different parts of the city and country.

5. Elimination of Middlemen: Chain stores are generally owned by manufacturers who sell their goods directly to consumers so middlemen are eliminated.

6. Cash Sales: In chain stores, no credit is given. Goods are sold on cash basis only.

(c) Mail Order Retailing: In mail order retailing sellers contact the potential buyers through advertisements and mail publicity, i.e. by sending circulars, catalogues, price lists, samples, booklets etc. The customers are required to place their orders by post.

This type of arrangement is called shopping by post by customers and selling by post by sellers.

(d) Automatic Vending Machine: A vending machine is a new form of direct retailing. It is a machine operated by coins or tokens. The buyer inserts a coin or token in the machine and receives a specific quantity of product from the machine. Large scale retailing is possible through vending machines placing the machine at a convenient location such as petrol pumps, railway stations, airports etc. This method of retail selling is very popular in Western.

12. Distinguish between Departmental Stores and Chain Stores

Ans.

Basis	Departmental Stores	Chain Stores
1.Variety	Departmental stores keep a wide variety of products to satisfy the requirement of all the customers.	Chain stores are specialised in only one line of product. They deal with limited range only.
2.Credit/Cash Basis	Departmental stores offer both cash and credit facilities to their regular customers.	Chain stores sell goods only on cash basis.
3. Location	Departmental stores are centrally located in big cities.	Chain stores are located in different localities.
4.Risk	There is greater risk in departmental stores.	The risk gets spread over all the stores located in different areas.
5. Types of Customers	It attracts customers belonging to the higher income group.	They attract customers from all income groups.
6.Services	Departmental stores offer various services Like post office, restaurant, etc.	Chain stores do not offer such services.

13. What is E retailing?

Ans. Electronic retailing (E-tailing) is the sale of goods and services through the Internet. E-tailing requires companies to tailor their business models to capture Internet sales, which can include building out distribution channels such as warehouses, Internet WebPages, and product shipping centres.

14. What is Physical distribution? Explain its importance.

Ans. Physical distribution concerns with the handling and the movement of goods after they are produced and before they are consumed. It includes all those activities connected with the efficient movement of goods from the place of production to the place of consumption. These interrelated activities are inventory control, freight transportation, storage, Material handling, order size control and order processing, physical distribution policies and practices etc. In other words, it creates 'time' and place utility which maximises the value of products by delivering them to the right customer at the right time and right place.

According to Philip Kotler, "Physical distribution is planning, implementing and controlling the process of physical flows of materials and final products, from point of origin to point of use, to meet customer's needs at a profit."

Importance of Physical Distribution or Role of Physical Distribution

Physical Distribution plays a significant role to move the goods from producers and manufacturers to the user. It provides a new orientation of marketing through integration of marketing services and business policies, plans and decisions. It is essential due to the following reasons:

(i) Reduction in Distribution Costs: Through effective physical distribution economy can be brought about in tangible and intangible costs by systematic planning of materials level, warehousing location and operations, speedy transportation modes, material handling, order processing and communication. The attainment of the objective of cost reduction could be successfully made not only in production activities but also in many areas of marketing with the help of physical distribution.

(ii) Broader Marketing Scope: An effective physical distribution system ensures the availability of right products at the right place and time and at the lowest possible cost, to the customers. Hence, many marketers have now going w start the effective use of physical distribution.

(iii) Creation of Utilities: Physical distribution facilitates the place and time dimensions. The two main components of physical distribution are transportation and warehousing. The transportation system creates place utility by bringing goods where they are not needed to the places where they are essentially needed. Warehousing system is known for creating time utility by holding the goods from the time of their production till their consumption.

(iv) Improved Customer Services: Physical distribution provides product availability at the time and location corresponding to the customer needs. It provides high levels of customer satisfaction through a viable distribution system which takes into account of various factors like, time consideration, dependability, communication, availability and convenience. Thus, physical distribution facilitates improved customer services.

(v) Price Stabilisation: Physical distribution is capable of bringing about much desired price stabilisation. Through best use of available transport and warehousing facilities that can bring about amicable and matching adjustment between the demand for and supply of goods thus preventing price fluctuations and distortions.