

Chapter – 23

Channels of Distribution

I. Choose the Correct Answer

Question 1.

Trade middleman who acts as a link between wholesaler and customers refers to a

- (a) Producer
- (b) Broker
- (c) Retailer
- (d) Customer

Answer:

- (c) Retailer

Question 2.

Who is the first middleman in the channel of distribution?

- (a) Wholesaler
- (b) Producer
- (c) Retailer
- (d) Customer

Answer:

- (a) Wholesaler

Question 3.

..... buy the goods from the producer and sell it to the retailers.

- (a) Manufacturer
- (b) Wholesaler
- (c) Retailer
- (d) Consumers

Answer:

- (b) Wholesaler

Question 4.

..... are agents who merely bring the buyer and the seller into contact.

- (a) Broker
- (b) Commission agent
- (c) Selling agent
- (d) Stockist

Answer:

- (a) Broker

Question 5.

Merchant middlemen can be classified into categories.

- (a) Three
- (b) Two
- (c) Five
- (d) Four

Answer:

- (b) Two

Question 6.

Wholesalers deal in quantity of goods.

- (a) Small
- (b) Large
- (c) Medium
- (d) Limited

Answer:

- (b) Large

Question 7.

A is a mercantile agent to whom goods are entrusted for sale by a principal and takes physical possession of the goods, but does not obtain ownership.

- (a) Broker
- (b) Factor
- (c) Warehouse – keeper
- (d) Commission agent

Answer:
(b) Factor

II. Very Short Answer Questions

Question 1.
Who is a middleman?

Answer:
Middlemen refer to all those who are in the link between the primary producer and the ultimate consumer in the exchange of goods and services.

Question 2.
Define Wholesaler.

Answer:
According to Cundiff and Still “wholesaler buys from the producer and sells merchandise to the retailers and other merchants and not to the consumers.

Question 3.
Define Retailer.

Answer:
According to Cundiff and Still “a retailer is a merchant or occasionally an agent whose main business is selling directly to the ultimate consumers”.

Question 4.
Who is a broker?

Answer:
A Broker is one who bargains for another and receives a commission for his service. He is paid ‘brokerage’ for his services. He brings the buyer and the seller to the negotiating process and arranges for finalising contracts between them.

Question 5.
What are the classifications of the merchant middlemen?

Answer:

Merchant middlemen can be classified into wholesalers and retailers.

Question 6.

Who are the mercantile agents?

Answer:

Mercantile Agents are also called functional middlemen. A businessman appoints a person to buy and sell goods on his behalf and gives him the right to borrow money on the security of goods. He is known as a mercantile agent.

III. Short Answer Questions

Question 1.

What do you understand by channels of distribution?

Answer:

It is the path traced in the direct or indirect transfer of title to a product as it moves from the producer to ultimate consumer.

Question 2.

Who is a factor?

Answer:

A factor is a mercantile agent to whom goods are entrusted for sale by a principal. He takes physical possession of the goods, though he does not obtain ownership of the goods. A factor sells goods in his own name without revealing the name of his principal.

Question 3.

Explain the types of mercantile agents.

Answer:

Brokers, Factors, Commission Agents, Del- credere Agents; Auctioneers, and Warehouse keepers are the types of mercantile middlemen.

Question 4.

Explain any three characteristics of wholesalers.

Answer:

1. Wholesalers buy goods directly from producers or manufacturers.
2. Wholesalers buy goods in large quantities and sell in relatively smaller quantities.
3. Wholesalers sell different varieties of a particular variety of products.

Question 5.

What are the services rendered by the wholesalers to the manufacturers?

Answer:

Services to Producers or Manufacturers

Economies in Large Scale:

A wholesaler buys goods in bulk and, thereby, enables the producers to produce goods on a large scale.

Assistance in Distribution:

Wholesalers collect orders from a large number of retailers scattered over a wide area and buy goods in bulk from producers. He enables producers to reach customers scattered over different parts of the country by distributing goods through retailers located in different areas. Therefore producer can concentrate only on production.

Warehousing Facility:

A wholesaler holds a large stock of goods in his private warehouse or in a rented warehouse. In this way he relieves the manufacturer from the function of warehousing.

Forecasting of Demand:

A wholesaler collects information from retailers about the nature and extent of demand and passes it onto the producers and enables them to produce goods according to the needs, tastes, and fashions prevailing in the market.

Publicity of Goods:

Often wholesalers launch an advertising campaign to boost the demand for

the goods. Producers get the benefit of such publicity and thus enabled to spend less on advertising.

IV. Long Answer Questions

Question 1.

What are the characteristics of retailers?

Answer:

Following are the characteristics of retail traders:

1. The retailer generally involves dealing in a variety of items. A retailer makes purchases from producers or wholesalers in bulk for sale to the end consumers in small quantities.
2. Retail trade is normally carried on in or near the main market area.
3. Generally, retailers involve buying on credit from wholesalers and selling for cash to consumers.
4. A retailer has indirect relation with the manufacturer (through wholesalers) but a direct link with the consumers.

Question 2.

What are the functions of Wholesalers?

Answer:

Following are the functions of wholesalers:

1. Collection of Goods:

Wholesaler collects the goods from manufacturers or producers in bulk.

2. Storage of Goods:

Wholesaler collects and stores them safely in warehouses, till they are sold out. Perishable goods like fruits, vegetables, etc. are stored in a cold storage facility.

3. Distribution:

A wholesaler sells goods to different retailers. Thus he performs the function of the distribution.

4. Financing:

Wholesalers provide financial support to producers and manufacturers by providing money in advance to them. He also sells goods to retailers on credit. Thus, at both ends wholesaler acts as a financier.

5. Risk Taking:

A wholesaler buys finished goods from the producer and keeps them in the warehouses till the time they are sold and assumes the risk arising from price, spoilage of goods, and changes in demand.

6. Grading Packing and Packaging:

Wholesaler classifies the goods into different categories. He grades the goods on the basis of quality, size and weight etc. He also undertakes packaging of goods and also performs the function of branding.

7. Providing Information:

Wholesalers provide valuable information to retailers and producers. The retailers are informed about the quality and type of products available in the market for sale. The producers are informed about the changes in taste and fashions of consumers by wholesalers so that they may produce the goods on the basis of tastes and preferences of customers.

8. Transportation:

A wholesaler arranges for the transport of goods from producers to his warehouse and from the warehouse to retailer. Many wholesalers maintain their own trucks, carry goods in bulk, and add place utility to the goods.

Question 3.

What are the functions of Retailers?

Answer:

1. **Buying:** A retailer buys a wide variety of goods from different wholesalers after estimating customer's demand.

2. **Storage:** A retailer maintains a ready stock of goods and displays them in the shop.
3. **Selling:** The retailer sells the goods in small quantities according to the demand taste and preference of consumers.
4. **Grading and Packing:** The retailer grades the goods which are not graded by manufacturers and wholesalers.
5. **Risk – bearing:** A retailer always keeps stock of goods in anticipation of demand and bears the risk of loss due to fire, theft, spoilage, price fluctuations, etc.
6. **Transportation:** Retailers often carry goods from manufacturers to their retail outlets.
7. **Financing:** Some retailers grant credit facilities to their customers and provide the facility of return or exchange of goods.

Question 4.

Explain the services rendered by wholesalers to retailers.

Answer:

The following are the Services rendered by wholesalers to Retailers

Financial Assistance:

Wholesalers provide financial assistance to retailers by selling goods on credit. This is done by allowing credit to retailers purchasing goods from them and makes payments to them after receiving money from their customers. This helps retailers to manage their business with a small amount of working capital.

Meeting the Requirements:

Due to limited capital and lack of space in his facility a retailer cannot hold a large variety of products. The wholesaler removes this difficulty by selling goods as and when the retailer requires them.

Introduction of New Products:

Wholesalers bring new products and their uses to the notice of retailers. Thus retailers get knowledge about innovative products and innovative features.

Price Stability:

Wholesalers reduce price fluctuations by adjusting supply and demand and save the retailers from loss arising from price fluctuations.

Economy in Transport:

A wholesaler often delivers goods at the doorsteps of retailers and save their time and cost of transport.

Regular Supply:

Wholesalers keep a large stock of varieties of goods and provide a regular supply of goods as per the retailer's need. Retailers can purchase as much as they like, from time to time, and need not maintain a large stock of goods.

Question 5.

What are the services rendered by retailers to wholesalers?

Answer:

1. **Help in Distribution** Retailers relieve the manufacturers and wholesalers of the burden of collecting and executing a large number of small orders from various consumers.
2. **Market Information** Retailers supply valuable information to wholesalers about changes in tastes, preferences, fashion, etc. of consumers.
3. **Large Scale Operation** The manufacturers and wholesalers are freed from the trouble of making individual sales to consumers in small quantities.
4. **Help in Promotion** Retailers participate in the promotional activities carried by manufacturers and wholesalers such as short time offers, coupons, free gifts, sales contests, etc.

5. **Personal Attention** The retailer is able to provide more personal attention to his customers than the wholesaler is, He gives special services on the spot when the articles require minor repairs.

Question 6.

Explain the services rendered to consumers by Retailers.

Answer:

A retailer provides the following services to consumers.

Regular Supply of Goods:

Retailers maintain ready stock of various products of different manufacturers for sale to consumers. This enables the buyers to buy products as and when needed.

New Products Information:

The retailers provide important information about the new arrival of products through their personal. Selling efforts and effective display of products.

Credit Facilities:

Sometimes retailers provide credit facilities to their customers and enable them to increase their level of consumption.

Wide Selection:

Retailers generally keep stock of a variety of products of different manufacturers. This enables the consumers to make their choice out of a wide selection of goods.

Miscellaneous Services:

1. Retailers provide free door delivery services to the customers.
2. They provide after-sale service to customers.
3. They allow cash discounts on their sales.

Question 7.

What are the factors affecting a channel of distribution?

Answer:

The factors affecting a channel of distribution are as follows:

1. **Product Characteristics :** Seasonal products are distributed through less layer of middlemen. Non standardized products that are made according to customer specifications may be delivered directly.
2. **Market Characteristics:** The size of the market for the goods is a major factor while selecting the route for the distribution of products.
3. **Number of Consumers:** Large purchases made by few consumers require centralized distribution.
4. **Middlemen factor:** Middlemen who are experienced and have produced more sales are wanted by all producers. Long channel naturally increases the cost and price of the product.
5. **The capacity of the Manufacturer:** A financially strong producer may select a high technology-oriented channel which will reduce cost in the long run.
6. **Cost and Time Involved in the Channel of Distribution:** The channel cost should go along with the quality of service provided by middlemen.
7. **Services Required along with the Product:** Machinery or equipment which need to be installed and demonstrated should be sold with the shorter channel.
8. **Life Cycle of the Product:** An established product can select an ordinary channel. But a new product entering into the market should be carefully promoted by experienced middlemen.