SCHOOL-BASED ENTERPRISE INSTRUCTIONAL UNITS

DISTRIBUTION/CHANNEL MANAGEMENT

EMERGING LEADERS AND ENTREPRENEURS IN MARKETING, FINANCE, HOSPITALITY AND MANAGEMENT
The channel of distribution is the path a product takes from its producer or manufacturer to its final user. Channel management is an important aspect of any business, because the business runs the risk of dissatisfied customers and lost revenue if products are not available for purchase. Another key concept is that of the supply chain. While this instructional unit will focus primarily on the distribution of goods or services from producers to consumers, supply chain is a broader concept that encompasses distribution. The supply chain comprises everyone and everything involved in producing a product and getting it to its final destination. This includes not only the manufacturer and its means of transporting the product to retailers, but also the manufacturer’s suppliers and the raw materials used to make the product, its packaging, etc. An effectively managed supply chain is usually not visible to the end consumer, though any interruption along the chain will have a profound impact on them. A drought, for instance, will most likely lead to a lower corn crop yield. Producers of corn products will have a smaller supply from which to buy, which will affect how much of their products they can produce. The scarcity of these products will, in turn, cause a spike in prices and a shortage in the marketplace. As you can see, the supply chain and all its various components, including distribution, are crucial elements of an efficiently run business.

Before we discuss the various consumer distribution channels, let’s first consider the major participants in those channels. At the beginning of the channel is the manufacturing company. Intermediaries or “middlemen” are businesses involved in sales transactions that move products from the manufacturer to the final user. These can actually be agents or merchants. An agent is an individual who does not assume ownership of the goods from the manufacturer but typically does receive a commission for their sales. A merchant intermediary is a wholesaler or retailer and does assume ownership of the manufactured goods. Last in the channel of distribution is the consumer of the goods. You are probably most familiar with wholesalers and retailers. Your SBE is a retailer—you sell goods to the final consumer for personal use. You most likely purchase some of your products from a wholesaler—also called “distributors,” these businesses buy large quantities of goods from manufacturers, store the goods, and then resell them to retailers (like your SBE).

As mentioned earlier, there are several different distribution channels for consumer products. Industrial products, or those purchased for use in a business, travel through their own unique distribution channels. The major difference between the distribution channels for consumer products and those for industrial products is the absence of retailers in the latter.

Let’s discuss the five major consumer distribution channels. First is the manufacturer/producer directly to the consumer. While the use of this channel has increased in recent years with the advent of online shopping, most people still purchase the majority of their goods in stores. Because of this, the manufacturer-to-consumer channel is the least common of the consumer distribution channels. A good example of manufacturer-to-consumer distribution is a television infomercial during which a consumer calls in to purchase the product advertised.

Manufacturer/producer-to-retailer-to-consumer distribution is the preferred channel of businesses whose products need regular and frequent updates. Chain stores use this channel, as their consumers are very familiar with the products offered.
and expect to see different inventory displayed routinely. Because of this, the chain stores need to purchase and receive new goods quickly and efficiently, and they can best do this without the use of a wholesaler.

Next is manufacturer/producer-to-wholesaler-to-retailer-to-consumer. Your SBE most likely participates in this type of distribution. This method is most often used for staple goods, or goods that do not change frequently and that customers will always want. Such items include candy, school and office supplies, and certain toiletry items. In this type of distribution, the manufacturer sells to the wholesaler who then stores the goods until they can sell and ship them to the retailer.

Manufacturer/producer-to-agents-to-wholesaler-to-retailer-to-consumer is similar to the manufacturer/producer-to-wholesaler-to-retailer-to-consumer channel, but with the addition of agents. This method is used when a manufacturing company simply doesn’t want to deal with the logistics of getting its products to the next point in the distribution channel. In this case, an agent steps in and sells to the wholesaler, who then sells to the retailer. Your SBE may very well participate in this type of distribution as well.

The last distribution channel is manufacturer/producer-to-agents-to-retailer-to-consumer. This is like the manufacturer/producer-to-agents-to-wholesaler-to-retailer-to-consumer channel, but with the wholesaler eliminated from the equation. This channel is used when the manufactured goods are not suitable for long-term storage. Items such as cosmetics and other luxury goods, along with certain perishable grocery items, are sold this way.

Your SBE is probably very familiar with physical distribution, also known as logistics. Physical distribution includes all logistical components involved in moving products through the channel of distribution, whatever that may be. These components are customer service, transportation, storage, processing of orders, inventory, and packaging.

**Customer service** refers to all the steps taken by a business to ensure the satisfaction of its customer base. While customer service involves attentiveness to customers and willingness to address customer needs, it also entails addressing those needs in a timely and efficient manner. Customers want their products and services available to them in a reasonable time frame; they don’t want inefficient physical distribution to affect when they can purchase and receive their goods. You help your SBE maintain a positive customer service image by ensuring that enough merchandise is on-hand to be sold at all times.

**Transportation** is the means by which a business’s products make their way to the next point in the channel of distribution. Your SBE’s merchandise is probably shipped by truck, though airplanes, trains, and cargo ships are other common modes of transportation used in the distribution of goods.

**Storage** is an important consideration for any business. If your SBE is a brick and mortar location, you undoubtedly deal with inventory storage. You need to store enough inventory to avoid completely depleting product lines, but not so much inventory that perishable items go to waste or back stock of slow-moving product significantly reduces your available storage space. Manufacturers and wholesalers deal with these same storage considerations, but on a much bigger scale.

**Processing of orders** refers to the fulfillment of product requests made along the channel of distribution. This could be a special order for a specific customer or the routine ordering of staple goods by a retailer from a wholesaler. The efficient processing of orders ensures that the requested goods are shipped out in good condition and received in a timely fashion.

**Inventory** refers to the entirety of a business’s products that are available to sell. This includes items displayed to the customer on the selling floor and any items in

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**KEY TERMS**

- Channel of distribution
- Supply chain
- Intermediary
- Agent
- Merchant
- Wholesaler
- Retailer
- Physical distribution/logistics
  - Customer service
  - Transportation
  - Storage
  - Order processing
  - Inventory
  - Packaging

**REFERENCES**


back stock (surplus goods in storage). A business should always conduct a physical count of its inventory at least twice a year. This allows for corrections to be made between perpetual inventory (automatically computer-generated inventory numbers) and product actually on-hand.

**Packaging** refers to how an item is wrapped or contained. All packaging costs money, whether it is a box used to ship smaller items without their own packaging (such as sweatshirts) or individual product wrappers (such as those for candy bars or chips). Proper packaging ensures that goods travel through the channel of distribution safely and without damage.

**CLASSROOM ACTIVITY**

Choose one of your SBE’s vendors. Identify the distribution channel in which you and your chosen vendor best fit. What role does your SBE play in the channel? What role does the vendor play?

Describe how your SBE receives shipments from the chosen vendor.

How does your SBE’s relationship with the chosen vendor ultimately affect your SBE’s customer service image?

**CASE STUDY**

Apple Inc. has achieved monumental global success through the production of such immensely popular products as the iMac, the iPod, and the iPhone. The leadership of the company’s late CEO, Steve Jobs, as well as Apple’s penchant for delivering high-tech electronics in sleek and modern designs, have become almost legendary in today’s marketplace. But the company’s prosperity is also due in part to the management of its distribution channels and supply chain.

Whereas some companies prefer to save as much money as they can on the front end of the distribution process, Apple does just the opposite. The company spends massive amounts of money to ensure that, prior to the release of a new product, there is more than enough raw material to produce vast quantities to satisfy incredibly high product demand. Apple’s popularity translates to a pervasive desire for its products amongst its clientele, who want the products immediately upon release. The MacBook, iPhone, and iPad have all seen great success due to the foresight of Apple executives, who buy equipment and supplies in extremely large quantities—often at the expense of competing companies. The green power indicator light on many Apple products was made possible only through the purchase of exorbitantly expensive lasers produced by one company in the United States. Apple negotiated with the company, which agreed to sell the lasers exclusively to Apple for manufacturing purposes. As a result, no other business can use this exact technology. In 2010, Apple purchased so many screens from various suppliers before the release of the iPhone 4 that there was a lag time before orders for the same screens from different companies could be filled. Similarly, Apple procured so many drills of a specific model to produce the iPad 2 that competitors had to wait for the company to make more drills before they could purchase them.

Apple’s front-end management of its supply chain ensures a smooth distribution process. If there are more than enough raw materials to produce more than enough products, there will be no shortage of goods to be shipped out to manufacturers. As a result, retailers will not have to wait to market the new products to eager consumers, and consumers will continue to regard the business as a well-managed and reputable company. Such is the case with Apple Inc.