Channel Selection

Numerous factors need to be taken into consideration while selecting a distribution channel. Some of the factors, which affect channel selection, are:

Market considerations:

These include the factors like:

- *Type of market*: The type of market to be chosen is a vital consideration. The market consists of business users and ultimate consumers of products. Retailers as such are not channels as they serve the ultimate consumers.
- *Number of potential customers*: Potential customers might be the business users or ultimate users. The composition of customers depends upon the type of product manufactured by the producer firm.
- *Geographic concentration of the market*: Depending upon the geographic dispersion of the consumers, the pattern of selling (direct or indirect) needs to be planned.
- *Order size*: The type of channel to be chosen is also dependent upon order size.

Product considerations:

These include the factors like:

- *Unit Value:* The price of each unit of a product affects the amount of funds available for distribution.
- *Perishability:* Perishable products necessarily require direct or very short channels, especially agricultural and dairy products.

- *Technical nature of a product:* Depending upon the technical nature of the product, the type of distribution channel is chosen. Usually the channel is not large because wholesalers may not have the necessary technical expertise to give pre- or post-sale service.

Middlemen considerations:

These include the factors like:

- *Service provided by middlemen:* Producers usually prefer middlemen with marketing expertise and those who have the ability to perform functions across departments efficiently.
- *Availability of desired middlemen:* Middlemen usually stock large variety of products of various companies and it is difficult for a producer to find one who will keep only one producer's items.
- *Attitude of middlemen towards producer's policies:* Some middlemen do not want to join the channel due to rigidity in the producer's policies.

Company considerations:

These include the factors like:

- *Desire for channel control:* A company, which has power in the market and the ability to control the channels would establish direct instead of indirect channels so that the product distribution is controlled.
- *Services provided by seller:* Some producers make decisions about their channels based on the distribution functions desired by middlemen.
- *Ability of management:* For choosing a channel, it is essential for a producer to gauge the marketing expertise and managerial competence.

- *Financial resources:* A company that is high in investment can establish its own sales force, grant credit to its customers, and warehouse its own products. Firms lacking this viable option may outsource and appoint middlemen.

Apart from the above factors there are some business environmental factors also which affect the selection of the channel. We will now discuss the factors in detail and along with that we will see some other related factors also.

The new business environment

Conditions are changing simultaneously in different fields, social, political, economic and technological, and they are often in conflict. It is difficult to forecast the area where changes will most affect business. For each specific business, it is important to keep in touch with the key changes in each area of the business environment and to update the forecast.

Technological environment

This is probably the easiest to identify:

- Accumulated technical knowledge (general exponential curve)
- Worldwide communications system (transport, satellites, etc.)
- Data processing (mini-computers, data banks, office systems, electronic mail (E-mail))
- New processes aimed at lower energy consumption and higher feed/raw material utilization, new energy sources.
- High investment cost.
- New technology for basic human needs (biotechnology, synthetic food, genetic engineering)

-

Economic environment

This change in the following areas:

- Obsolescence of all past theories
- Irrelevance of past extrapolation
- World-wide population growth, but concentrated in certain areas
- High energy/raw material costs
- Inflation coupled with lower economic growth (stagflation)
- Monetary instability and disparity between developed countries
- (DC)/Organization of Petroleum-Exporting Countries (OPEC) and LDC.
- Shortage of capital, credit squeeze, very selective investments
- Shortage of people able to understand the new environment
- Potential shortage of food world-wide

Social environment

Changes occur in:

- Collapse of tradition and structures
- New education, new expectations, new motivations.
- New life styles, mobility, quality of life, health care.
- Consumerism/ecology/anti-business attitudes
- Unemployment and shorter working time
- Crime/terrorism
- Participate working conditions

Political environment

The political environment is subject to

- Nationalism versus grouping of industries
- Higher government intervention/trade and job protection.
- Price control and income equalisation
- Political instability/wars

Relative importance of the external factors

Generally speaking, the changes in social environment and to some extent the political factors will play a much larger part in shaping the business environment than they did in the past.

Coping with the changing environment is already a difficult task; the difficulty appears larger when it is realised that not only is the number of changes high, but the difference in 'quality' is even more striking. Most conditions show fundamental differences with past history and knowledge, as well as the past and even the current approach to business theories and management. Things are not only drastically different, they change quickly, much faster than they did in the industrial revolution during the 19th century. These fast changes are therefore very difficult, if not impossible, to foresee; they create business turbulence and unexpected crises at short notice; instability, discontinuity and uncertainty seem to characterize the present years and this situation will continue until the world reaches a new period of stability in all these respects.

Evaluation

All these changes can be frightening and leave one wondering whether the ordinary business executive can cope with them; whether the 'human gap' is not too great. However, there is no choice, so one might as well adopt a responsible and positive attitude instead of a passive and negative one.

The 'serenity prayer' says: In most businesses, a change in environment can be considered either as a threat or as a new opportunity depending on the point of view. A newly industrialised nation can be considered as a threat (cheap competition) or an opportunity (new market). While excessive inflation is a nightmare for most governments, it is viewed as an opportunity by many businesses. Increasing crime is a frightening trend to most people; but security companies consider it as an opportunity for more business.

It is important to conduct a rational and systematic analysis of the future impact of each environmental factor on a specific business; and to avoid being trapped in a last minute crisis, under the pressure of events, when it may be too late to adjust to them. This analysis can be set out in the following manner.

I. Environmental factor: technological

(a) Degree of change: high/low

(b) Probability of occurrence: high/low

(c) Implication: opportunity or threat

2. Environmental factor: economic etc.

The probability level associated with each factor is a basic ingredient of any potential 'environment scenario' and concerns the risk evaluation of each future business strategy. Thus the systematic evaluation of opportunities and threats is a key part of the overall process of strategic business planning.

The Importance of SWOT Analyses

Answers to the following five essential questions, asked periodically, will provide clues to gaining advantage over competitors:

- What are our company's unique strengths or aspects, which give us competitive advantage over our close competitors'?
- What are our relative strengths in comparison to our nearest competitors?
- What are our weak flanks, which we have to guard?
- What are the weak points of our competitors, which we can attack?
- What ideas do the foregoing give us in terms of opportunities?

To do this, it is necessary to make an analysis of the strengths, weaknesses, opportunities and threats (SWOTs) faced by the company and the distributor. Since the market place, the conditions and the competitors may be different as far as each distributor is concerned, it is important to start afresh in each case. This analysis must be undertaken at least once a year.

The above analysis of a company's SWOTs must be augmented by similar analyses of the other channel members. The number of members in a particular channel can vary according to the length and width of the channel strategy a company adopts.

Checklist for selecting the most appropriate channels

Product factors

Four product variables must be weighed in channel selection.

1. Physical nature:

(a) Perishability of the product, whether physical or due to fashion

(b) Seasonal variation, causing inventory problems

(c) Unit value of the product

(d) Inventory investment required

(e) Customer service requirements.

2. Technical nature:

(a) A simple or complex product;

(b) Advice is needed on product use;

(c) Installation is needed or

(d) Special training is needed.

3. Length of product line: This consists of a group of products related either from a production or a marketing standpoint. Intermediaries are preferable own sales force when the line is short. Decisions must be made whether' to use a single channel for the entire line or split the line and use multiple channels.

4. Market position: An established product made and promoted by a reputable manufacturer may have a high degree of market acceptance and can be readily sold through more channels than a lesser-known product.

Market factors

1. Existing market structure: This includes traditional modes of operation, geographical factors, size and placement of the population, etc.

2. Nature of the purchase deliberation: The amount of deliberation by the buyer before purchase differs from product to product. Frequent purchases need more buyer-seller contacts and intermediaries are indicated. Formal specifications and competitive bids may be used in purchasing certain industrial products.

3. Availability of the channel: Existing channels may not be interested in new products. The promoter can either persuade them or use aggressive promotion to stimulate consumer demand on the theory that this will force the intermediaries to carry the product in order to satisfy the customers.

Institutional factors

1. Financial ability of channel members: Manufacturers may find it necessary to aid their retailers through direct financing; willingness to extend credit can influence channel acceptance. Conversely, mass retailers sometimes finance their suppliers.

2. Promotional ability of channel members: Wholesalers cannot aggressively promote particular products, but exclusive distributors usually join the manufacturer in doing so. Manufacturers assume this function in the case of national brands, while the promotion of private brands usually rests on the mass retailer or wholesaler who establishes the brand name.

3. Post-sales service ability: The after-sales service, with or without a warranty, may be performed by the manufacturer, the retail distributor or an independent service organization. This ability affects channel selection.