**PRACTICE TEST KEY**

**Objective A**

 1. Channels of distribution allow consumers to save time, to save money, and to enjoy a variety of products from all over the world, right where they live. (3 points)

 2. Channels of distribution are the paths, or routes, that goods and services take from the producer to the ultimate consumer or industrial user. These paths aren’t physical, however. Instead, the term refers to businesses or people who perform a variety of functions to enable products to be in the right places at the right times. (3 points)

 3. A channel of distribution begins with the producer and ends when the good or service has reached the ultimate consumer or industrial user. A channel also ends when changes are made to the form of the good. (3 points)

 4. Producers make or provide goods and services. Examples of producers include Whirlpool, a manufacturer of household appliances, and Pfizer, a company that makes pharmaceuticals. Farmers are producers as well—they grow a variety of crops such as corn, wheat, and rice.
Producers of services include actors and entertainers, teachers, and health care professionals.
 (2 points)

 5. Ultimate consumers are people who personally use goods or services to satisfy their own needs and wants. We are all ultimate consumers of many different goods and services. (2 points)

 6. Industrial users are businesses that buy materials, services, or goods that will be used to make other goods or used in the operation of the company. A construction company, for instance, must buy lumber, steel, and other materials needed to build homes and offices. An accounting firm will purchase computers, printers, and other office equipment necessary for its employees to perform their jobs. (2 points)

 7. Many products take paths that include channel members in addition to the producer and the ultimate consumer or industrial user. These channel members are known as intermediaries or middlemen. They operate between the producer and the consumer or user to help in the movement of goods and services. (3 points)

 8. Three types of intermediaries include: (15 points; 5 points each)

 a. Retailers—businesses that buy consumer goods and sell them to ultimate consumers. They perform functions such as buying, selling, promoting, storing, and pricing goods. They may also provide customer services such as credit, installation, and repair.

 b. Wholesalers—businesses that buy goods from producers or agents and sell them to retailers. Wholesalers buy a variety of goods from many producers and sell groups of related products to retailers.

 c. Agents—businesses or individuals that assist in the sale and/or promotion of goods and services but do not buy them from the producer. They do not take title to the products; in other words, they never actually own them. Instead, their job is to sell and promote a producer’s goods and services. They usually handle a limited number of noncompeting products.

**PRACTICE TEST KEY** (cont’d)

 9. Intermediaries enable producers to match production to the needs and wants of consumers and industrial users in the following three ways: (15 points; 5 points each)

 a. Buy big and sell small—Intermediaries buy large quantities of goods from producers and sell smaller quantities to other intermediaries or consumers. By placing large orders with producers, intermediaries are able to reduce their per-unit cost for goods, allowing them to make a profit and/or pass some of the savings along to consumers.

 b. Develop an assortment of goods—Since most producers are able to produce more than any consumer will purchase at one time, intermediaries collect goods from a variety of producers and divide them into quantities and assortments that consumers will want. Consumers are then conveniently able to obtain the desired amounts and types of goods and services.

 c. Transport and store goods—Intermediaries transport and store goods so that they will be available to consumers or industrial users where and when they are wanted or needed. This enables goods to be on hand when consumers or industrial users are ready to buy them rather than only when they are produced.

**Objective B**

 10. Some routes are short, involving just the producer and the consumer or industrial user. These short routes are known as direct channels of distribution. Other routes are longer, involving the use of intermediaries. These routes are called indirect channels of distribution. (2 points)

 11. The five basic channels for consumer goods are: (25 points; 5 points each)

 a. Producer to consumer—With this type of channel, goods move straight from the producer to the consumer (direct distribution). This is the simplest of all channels. It can take place where the good is produced, in warehouses or outlets owned by the producer, or through producers’ catalogs or online sites. By selling goods directly to consumers, producers are able to maintain tight quality control of selling, installation, and servicing. However, the producer retains all distribution costs.

 b. Producer to retailer to consumer—When it is not possible for a producer to reach a large number of consumers on a direct basis, the producer will often decide to distribute products through intermediaries. Retailers can provide wide distribution of products to consumers and at lower costs than producers can on a direct basis. Most retailers who deal directly with producers buy in large quantities due to the size of their businesses and the great demand for products.

**PRACTICE TEST KEY** (cont’d)

 c. Producer to wholesaler to retailer to consumer—Since many producers cannot offer small shipments, they often require buyers to place large orders for goods. However, most retailers cannot buy the large quantities required. This is why producers use wholesalers to sell to smaller retailers. This is the most common channel of distribution for consumer goods. Wholesalers buy large quantities from producers and divide them into smaller units for sale to retailers. The wholesaler is able to provide the retailer with a variety of products from which to choose. This helps the producer as well because large, bulk sales can be made to a few wholesalers rather than to many retailers.

 d. Producer to agent to retailer to consumer—Some producers do not want to take the responsibility, or spend the time or money to sell their goods, but they are prepared to handle many other marketing functions. These producers contract with an agent to sell the goods to retailers. The agent’s job is to bring buyer and seller together. Once the sales are made, the producer assumes responsibility for processing the goods to the retailers. This channel is frequently used by producers to reach large retailers.

 e. Producer to agent to wholesaler to retailer to consumer—To reach small retailers, producers will contract with agents to sell their goods to wholesalers. Wholesalers, in turn, buy large quantities of the goods and sell smaller amounts to many small retailers. When using this channel, producers are able to share their responsibilities for distribution with a maximum number of intermediaries.

 12. The four basic channels for industrial goods are: (20 points; 5 points each)

 a. Producer to industrial user—This is the direct distribution route for industrial goods. It is also the most common route for them to follow, since most large industrial goods require installation or special servicing. Producers feel that they are best qualified to provide these special considerations.

 b. Producer to industrial distributor to user—Industrial distributors function in much the same way as wholesalers for consumer goods. They buy large quantities of goods and raw materials from producers and sell small quantities to industrial users. Unlike wholesalers, however, they tend to specialize in selling a limited number of products. They frequently carry small, standardized parts and operating supplies that industrial users need on a continuous basis. By having supplies on hand, they are able to help industrial users obtain goods faster than they could from producers.

 c. Producer to agent to user—Producers who do not have their own sales forces contract with agents to promote and sell their goods to industrial users. Shipment of goods is direct from the producer to the industrial user since the agent does not take title to the goods. This channel is used frequently for industrial goods with unit prices high enough to justify selling directly to industrial users.

**PRACTICE TEST KEY** (cont’d)

 d. Producer to agent to industrial distributor to user—When a good’s unit cost is not high enough to justify selling directly to industrial users, industrial distributors will be added to the channel. The industrial distributor buys large quantities of a good from an agent and sells smaller quantities to industrial users. This route is often used by small producers of items such as building supplies.

 13. Services are intangible activities that are performed by other people for money. They are productive acts that satisfy economic wants. Because services are intangible, producers aren’t concerned about having to ship and store them. Usually, services are consumed when they are produced. Therefore, most services follow a direct channel of distribution—they move directly from the service provider to the consumer or user. Agents can assist with the distribution of services. This channel would begin with the service provider, move to the agent, and then to the consumer or user. An example of this indirect channel would be the services provided by entertainers who work with agents to promote and sell their skills. Travel agents, insurance agents, and stock brokers are also channel members involved in the distribution of specific
services. (5 points)

**Suggested** Criterion Level: 80 points