

EUROPEAN INSTITUTE OF INNOVATION, ENTREPRENEURSHIP AND TECHNOLOGY

MODULE

Operations Management in Hospitality

Factors Influencing a Company's Choice of Distribution Channels

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Introduction

A distribution channel is the network of firms or intermediaries through which a product or service travels from producer to final customer, whether physically or online (Bellaqa, Beha, & Bajrami, 2025). Choosing a distribution channel is a long-term, high-stakes decision: it requires major investment, and once a channel structure is established it cannot easily be modified, so companies must select the option that will remain consistent and effective over an extended period (Bellaqa et al., 2025). That choice is shaped by four interacting categories of factors: the characteristics of the customer, the nature of the product or service, the resources the company can bring to the decision, and the conditions prevailing in the market.

Customer Characteristics

Who the customer is, and how they prefer to buy, is often the starting point for channel selection. Consumer-related factors such as the number of customers a business serves and the size of its overall customer base directly promote or constrain the effectiveness of a given distribution channel (Tsey, Boachie-Mensah, & Agyapong, 2022). A channel that works well for a small, geographically concentrated customer base may be entirely inadequate once that base grows large or becomes dispersed. Customer preferences also shift over time in ways companies must track: recent evidence shows a marked consumer shift toward combining online and offline channels, a trend significantly accelerated by the COVID-19 pandemic, which pushed many customers who previously bought only in person toward digital channels (Bellaqa et al., 2025). A company that fails to update its channel mix as customer buying habits change risks losing access to segments that have already moved elsewhere.

Product or Service Nature

The nature of what is being sold constrains which channels can realistically carry it. Empirical research on fast-moving consumer goods found that product-related factors, including price, perishability, and the size and weight of the product, directly shaped which distribution channels functioned effectively for a given product line (Tsey et al., 2022). A highly perishable product cannot tolerate a long, multi-intermediary channel, since value is lost the longer the product sits before reaching the consumer, favouring shorter, more direct routes to market. Bulkier or heavier products may be constrained by which intermediaries can physically handle and store them. The

same logic extends to services: complex or high-value offerings that require explanation or customisation typically need channels capable of conveying detailed information, such as direct sales or knowledgeable intermediaries, whereas simple, standardised products can move efficiently through broad, low-touch mass channels.

Company Resources

A company's own financial, infrastructural, and technological capacity limits which channel strategies are actually achievable, regardless of what customer or product characteristics might otherwise recommend. Research on FMCG distribution identifies cost, infrastructure limitations, lack of professionalism, and other financial constraints as major limitations on effective channel implementation (Liwali, 2013, as cited in Tsey et al., 2022). A company with limited capital or weak logistics infrastructure may be forced to rely on third-party intermediaries who absorb the distribution burden, even if a more direct channel would otherwise be preferable. Technological capability matters as much as financial capital: hotels with a capable revenue management system can manage several distribution channels simultaneously, automatically updating rates and availability across a direct website, global distribution systems, and third-party online travel agencies, factoring in the different cost of distribution each channel carries (Haley & Inge, 2004). A company lacking this technological infrastructure cannot realistically sustain the same multi-channel complexity, and may need to concentrate on fewer, simpler channels instead.

Market Conditions

Finally, the broader competitive and informational environment shapes which channels make sense at a given point in time. Research on FMCG distributors found that competition intensity, pricing pressure, and the quality of demand forecasting available to a firm were critical drivers of distribution channel strategy (Brown & Dant, 2014, as cited in Tsey et al., 2022). In markets with intense, often price-driven competition, companies may need to diversify across more channels simply to maintain visibility and market share. Channel proliferation itself is also a market condition companies must respond to: as new third-party distribution channels emerge and gain traction, competitors who adopt them first can shift the entire competitive environment, forcing other companies to expand their own channel mix simply to remain visible to customers who now expect to find the product or service there (Haley & Inge, 2004; Bellaqa et al., 2025).

Conclusion

No single factor determines a company's choice of distribution channels; customer characteristics, product or service nature, company resources, and market conditions interact and frequently constrain one another. A channel that suits the product may be unaffordable given the company's resources, or a channel that customers prefer may not yet be viable given current market conditions. Because channel decisions are costly and difficult to reverse once made, companies must weigh all four categories together and revisit the decision periodically as customers, products, resources, and markets continue to evolve (Bellaqa et al., 2025).

References

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