

Unit-8

DISTRIBUTION DECISIONS

Contents:

Concept and objectives of distribution.

Channel functions and flows.

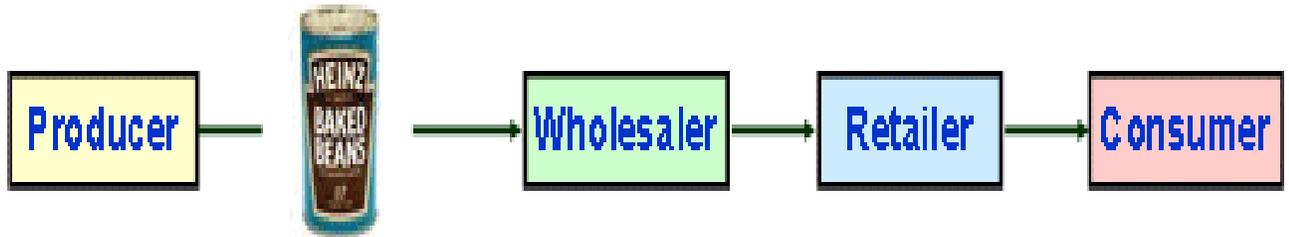
Channel designs for consumer and industrial products.

Channel selection factors.

Channel conflicts and their resolution.

Concept, nature and objectives of marketing logistics.

Major logistics functions -transportation, warehousing, inventory management, order processing, and customer services decisions.



DISTRIBUTION CONCEPT

Distribution refers to the means for getting the product to the market.

It is the process of getting products and services from producers to consumer and users at the proper time in the proper place they are needed.



It is the system of relationships among the various persons and institutions involved in the process of physical movement and ownership transfer of products that facilitates the exchange process.

It involves several types of activities: physical, legal, financial and promotional.

DISTRIBUTION CONCEPT

William J. Stanton:

“Distribution consists of all the activities concerned with moving the right amount of the right products to right place at the right time.”



Philip Kotler:

“Distribution includes the various activities the company undertakes to make the product accessible and available to target customers.”

National Council of Physical Distribution Management: USA

“Distribution is a term employed in manufacturing and commerce to describe the broad range of activities concerned with efficient movement of finished products from the end of production line to consumer.”



DISTRIBUTION CONCEPT

Distribution is the process through which a producer of goods delivers them into the hands of their users.

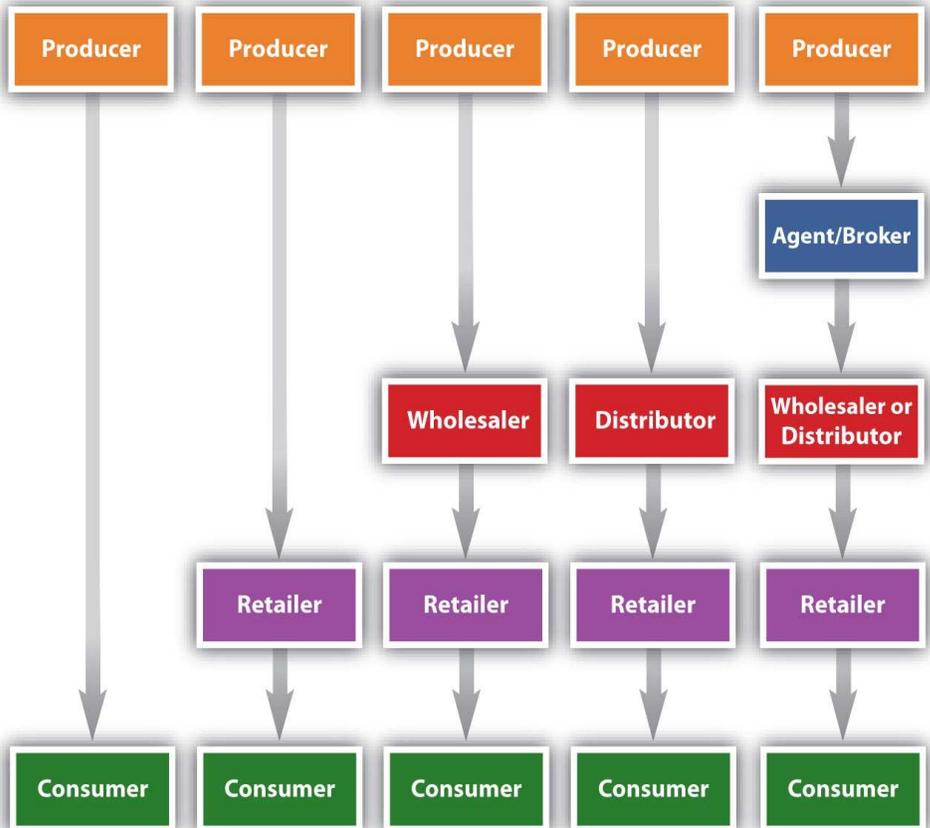
Distribution also can be defined as those activities involved with the storage and movement of products from the producer to the consumers or users.

It is the arrangement necessary to transfer ownership of a product and transport the product from where it is produced to where it is finally consumed.



DISTRIBUTION CONCEPT

Subsystem/Subdivision/Components/Elements of distribution



1. Marketing Channels:

Mercantile agents, wholesalers and retailers.

2. Physical Distribution:

Order processing, warehousing, material handling, inventory management and transportation.



OBJECTIVES OF DISTRIBUTION

An ideal objective of distribution decision is to deliver a right product:

- ✓ To the right place
- ✓ At right time
- ✓ Through right channel
- ✓ With minimum chances of loss and damage
- ✓ Transferring ownership from seller to buyer
- ✓ At different distribution chains



IMPORTANCE OF DISTRIBUTION

- ✓ Delivery of satisfaction
- ✓ Enhance living standard
- ✓ Value addition to the product
- ✓ Channel of communication
- ✓ Occupation and employment

Minimizes or eliminates market competitions



CHANNEL SYSTEM/STRUCTURE



- Channel structure refers to the system of marketing institutions through which goods and services are transferred from the original producer to ultimate users or consumers.
- It is the set of people and firms involved in the flow of title as the product or service move from producer to ultimate consumer or business user.
- It is like pipeline which takes the right quantities of the right product to the right location where the target customers want them at the right time.
- A distribution channel always include both the producer and the final customer for the product, as well as all intermediaries involved in the title transfer.

CHANNEL SYSTEM/STRUCTURE

Philip Kotler:

“Marketing channels are the sets of interdependent organizations involved in the process of making a product or service available for use or consumption.”

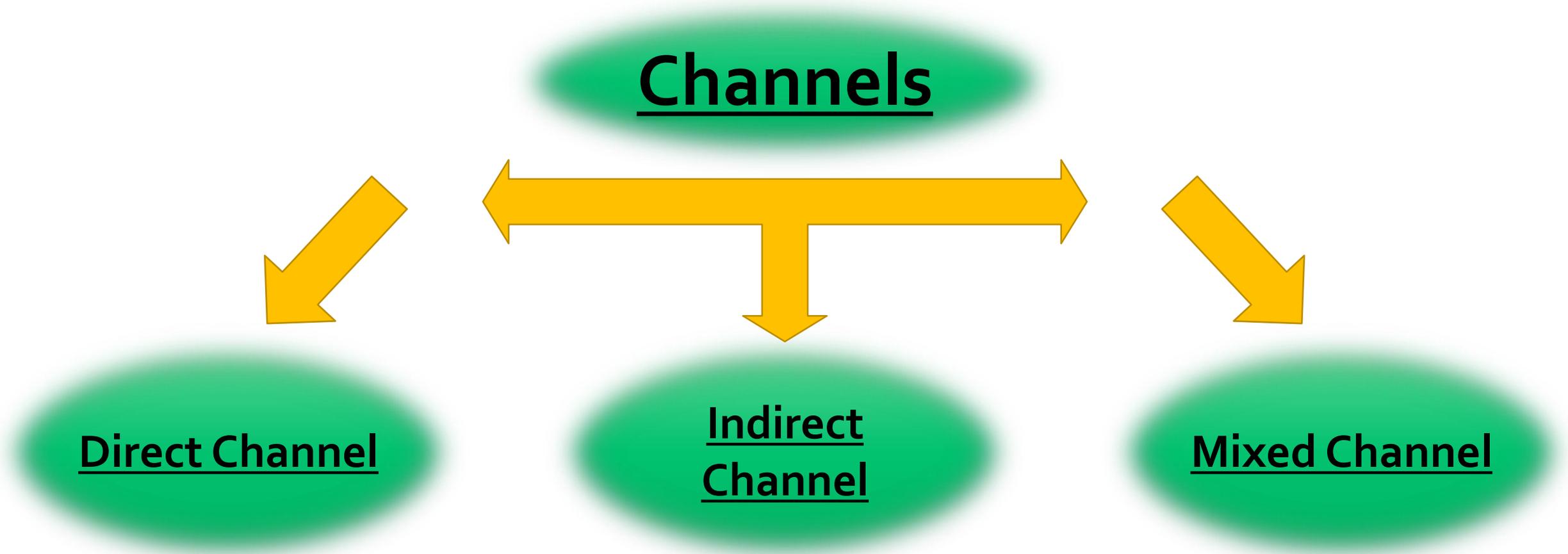
American Marketing Association:

“A channel of distribution or marketing channel is the structure of intra company organization units and extra-company agents and dealers, wholesale and retail through which a commodity, product or service is marketed.”

John A. Howard:

“Marketing channels are the combination of agencies through which the seller, who is often, through not necessarily the manufacturer, markets his product to the ultimate user.”

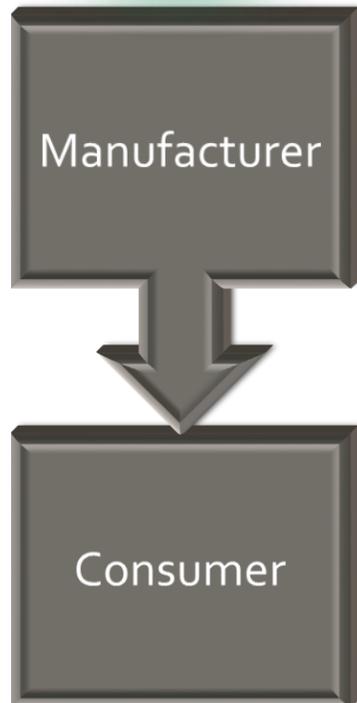
TYPES OF CHANNELS



Channel members can be Producers, Agents, Wholesalers and Retailers.

CHANNEL STRUCTURE FOR CONSUMER GOODS

Zero level



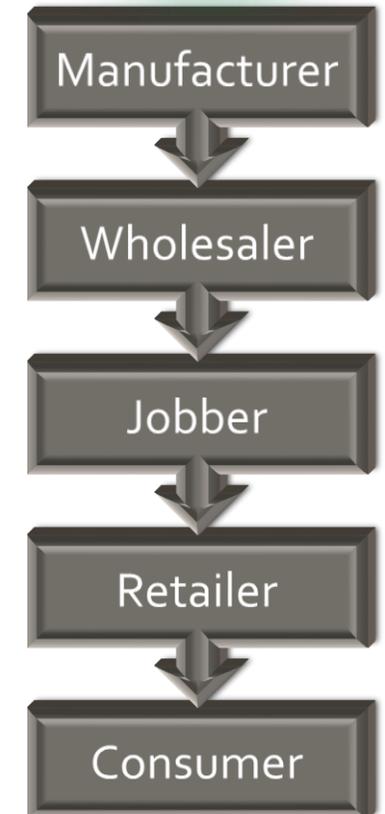
One level



Two level

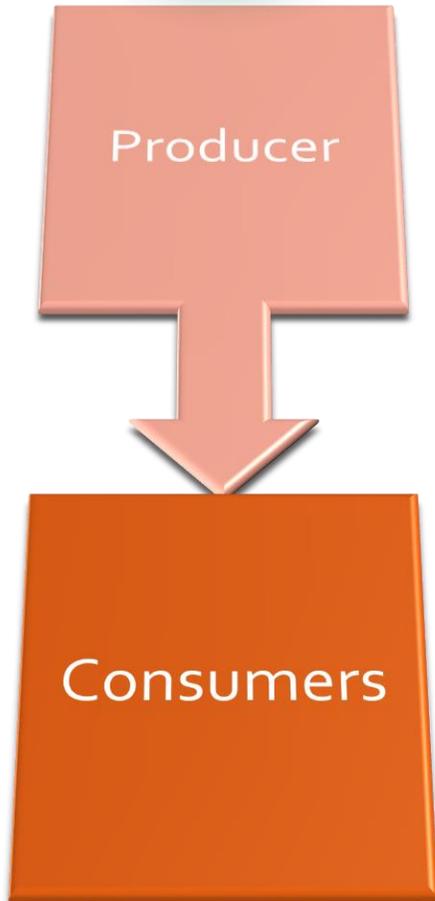


Three level



CHANNEL STRUCTURE FOR CONSUMER GOODS

Zero level



- ❖ Direct marketing channels.
- ❖ Shortest and simplest of all choices available to a company.
- ❖ Transferred directly to consumers by the producer without any intermediary participating in the pathway.
- ❖ Cutting out distributor's profit margin may make this channel attractive to producers.
- ❖ Goods can be made available to consumers at economic prices.
- ❖ Producer may use its own sales branches or sales offices.
- ❖ Generally used for perishable goods, like bakery products, ice-cream, vegetables etc.
- ❖ Not popular for wider market.
- ❖ Door-to-door selling, mail order marketing, catalogue marketing, telemarketing, television marketing, internet marketing.
- ❖ The information technology is making the zero-level channel popular.
- ❖ Its future is promising.
- ❖ Distribution costs are the lowest.

CHANNEL STRUCTURE FOR CONSUMER GOODS

One level



- ❖ It consists of one type of intermediary called retailers through whom a producer sells goods to consumers.
- ❖ It becomes economic for producer to supply retailers directly rather than through wholesalers.
- ❖ Customers then have the convenience of viewing/testing the product at the retail outlet.
- ❖ It is preferable when buyers are large retailers such as departmental stores, super markets, co-operative houses.
- ❖ The aim is selective distribution.
- ❖ The distribution costs are low. But the order size needs to be large.

CHANNEL STRUCTURE FOR CONSUMER GOODS

Two level



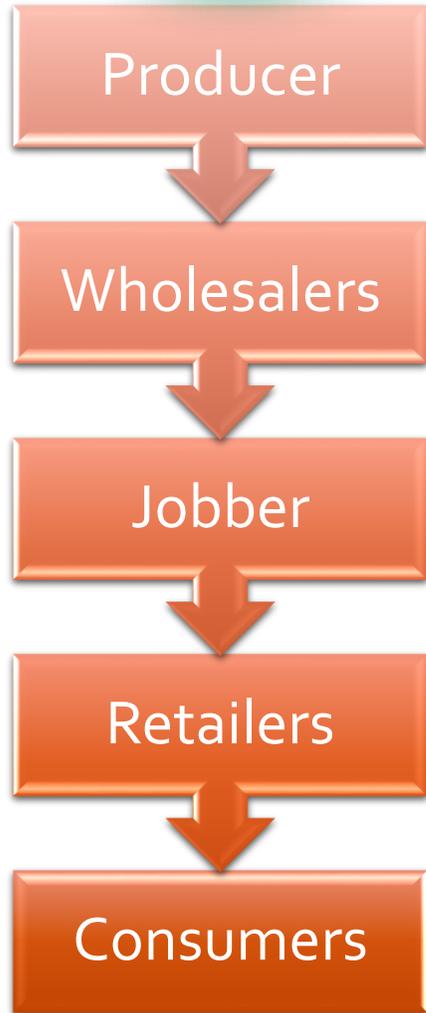
- ❖ It consists of two intermediaries and they are wholesalers and retailers.
- ❖ Producer sells its products to wholesalers and wholesalers sell the products to a large number of retailers in different markets.
- ❖ Then retailers sell the products to ultimate consumers.
- ❖ It is a long channel.
- ❖ This is widely used traditional channel.
- ❖ The aim is intensive distribution.
- ❖ Large number of retail outlets can be reached.
- ❖ Semi-wholesalers can also be used to cater to specific locations.
- ❖ The distribution costs are high.

It is suitable for following conditions when:

- ❖ Products are durable in nature.
- ❖ Producers have narrow product line.
- ❖ Producers have limited capital.
- ❖ Wholesalers are strong to support promotional activities.

CHANNEL STRUCTURE FOR CONSUMER GOODS

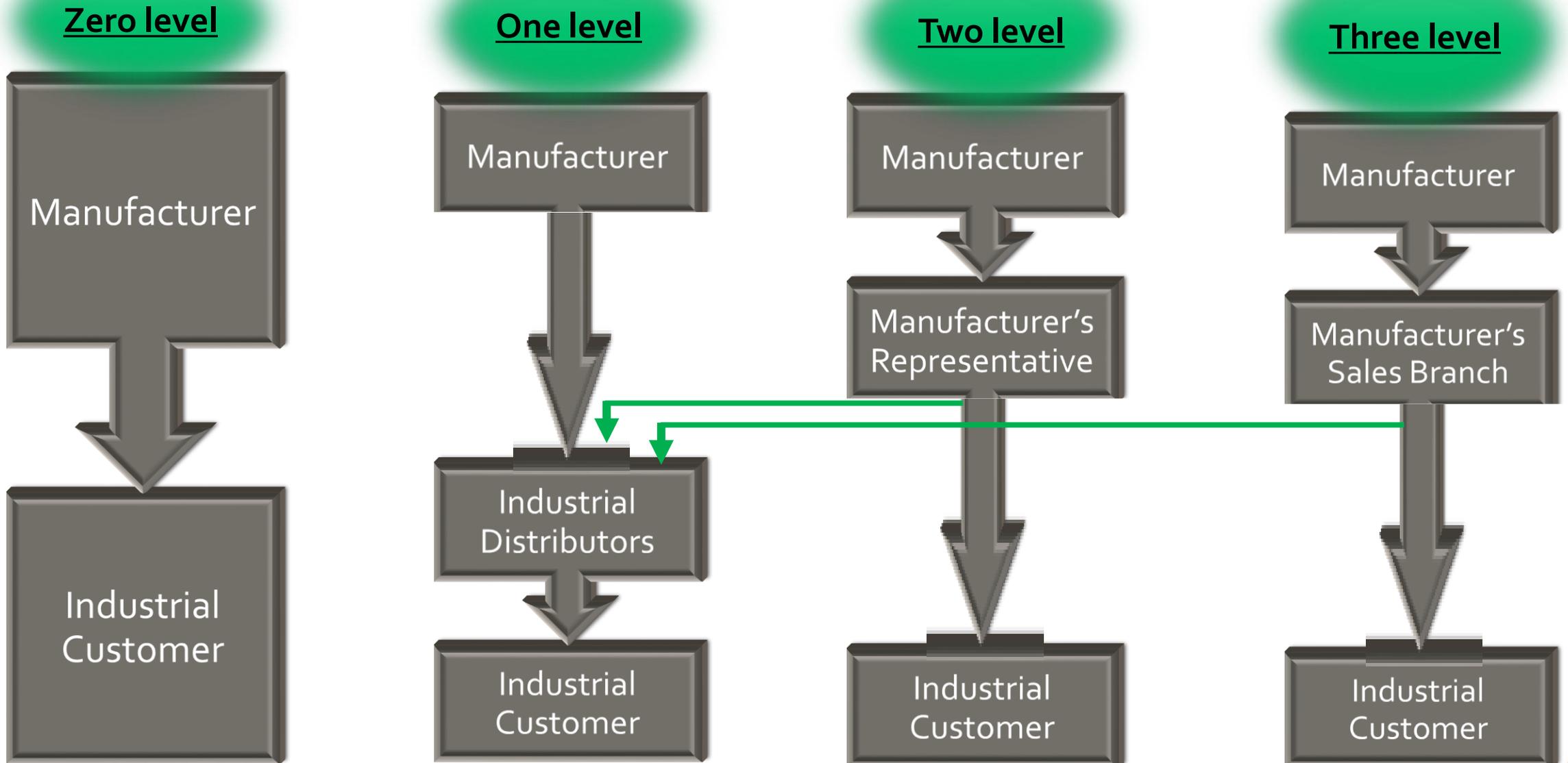
Three level



- ❖ It consists of various intermediaries and they are wholesalers, jobber/agents, retailers and consumers.
- ❖ It is indirect or the longest channel of distribution.
- ❖ This channel is very suitable to and useful in international trade because of distant markets spread in various countries of the world.
- ❖ Global companies use this type of channel where distance, language and culture serve as barriers.
- ❖ The agent has exclusive rights to sell the manufactures products.
- ❖ The distribution costs are the highest.



CHANNEL STRUCTURE FOR INDUSTRIALGOODS



CHANNEL STRUCTURE FOR INDUSTRIALGOODS

Zero level

Producer

Industrial
Users

This direct channel accounts for a greater amount volume of industrial products than any other distribution structure.

Producers of large installations, such as aircraft, generators and heating plants, usually sell directly to users.

These equipment needs regular maintenance and servicing that are provided by the manufactures more easily if the products are ordered directly.

When the physical product is bundled with a service package, the direct distribution often becomes essential.

CHANNEL STRUCTURE FOR INDUSTRIALGOODS



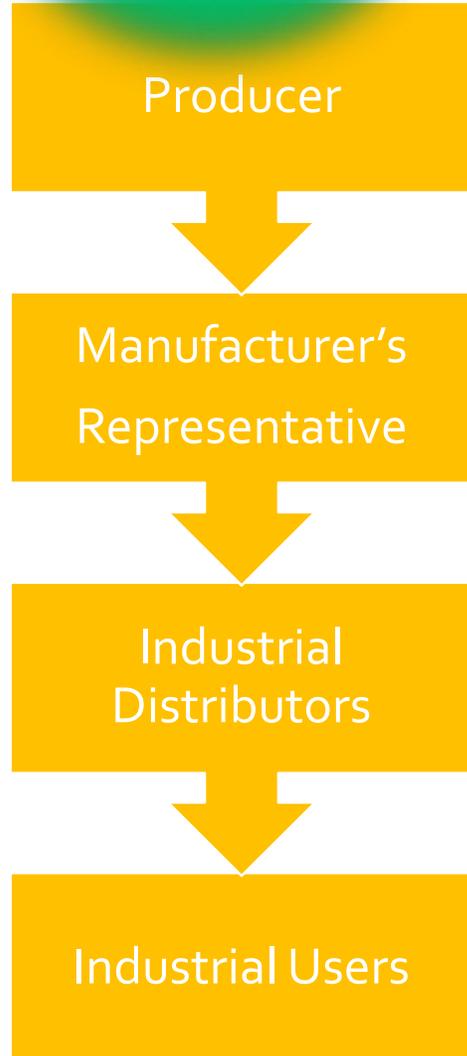
Producers of operating supplies and small accessory equipment frequently use industrial distributors to reach their markets.

Producers of construction materials, office equipments and appliances, air-conditioning equipment, small tools and equipments are some examples of firms that make heavy use of the industrial distributor.

This channel is adopted for items that have a substantial number of users scattered in a wide area and distributors cover specified areas.

CHANNEL STRUCTURE FOR INDUSTRIALGOODS

Two level



Producers may not be able to come in direct contact with users because of various limitations. Agents help them usually on commission basis. Agents ensure timely and adequate supplies to users from producers and are paid commission on the basis of volume of sales.

They also provide promotional services for new products. They can identify and ascertain potential market.

Firms without their own marketing departments find this a desirable channel.

Also a company that wants to introduce a new product or enter a new market may prefer to use agents rather than its own sales force

CHANNEL STRUCTURE FOR INDUSTRIALGOODS

Three level

Producer

Manufacturer's
Sales Branch

Industrial
Distributors

Industrial
Users

It consists of various intermediaries and they are agents, wholesalers, retailers and consumers.

It is indirect or the longest channel of distribution.

Mostly small items that have widely dispersed market in an extensive area and are necessary to be supplied very often or on regular basis usually follow this channel of distribution.

There is a large number of distributors scattered in various places and it is not possible for producers to contact them directly. Hence, agents become necessary.

Why this channel are adopted?

It not feasible to sell through agents directly to the industrial user.

The unit sale may be to small for direct marketing.

Decentralized inventory may be needed to supply users rapidly, in which case the storage services of an industrial distributors are required.

STRATEGIES CONSIDERATION IN CHANNEL SELECTION

Objectives

Market

Middlemen

Product

**Legal
Environment**

Company

STRATEGIES CONSIDERATION IN CHANNEL SELECTION

Objectives

- a. Channel control
- b. Market coverage :
 - Intensive distribution- All available channels.
 - Selection distribution- Limited number of channels in a geographical area.
 - Exclusive distribution- Only one wholesaler, retailer or industrial distributor.
- c. Channel costs

Market

- a. Types of market: Consumer(long) & Industrial(short)
- b. Number of potential customer: Large (indirect) & Small (direct)
- c. Geographic concentration: Few (direct) & Large (indirect)
- d. Order size: Large (short) & Small (long)
- e. Competitors:

STRATEGIES CONSIDERATION IN CHANNEL SELECTION

Product

- a. **Unit Value:** High (direct) & Low (indirect)
- b. **Perishability:** Short channels
- c. **Technical nature of a product:** Very technical and complex (direct)

Middlemen

- a. **Service provided by middlemen**
- b. **Availability of desired middlemen**
- c. **Attitude of middlemen toward manufactures' policies**

Company

- a. **Financial resources**
- b. **Ability of management**
- c. **Desire for channel control**

Legal Environment

MARKET INTERMEDIARIES (MIDDLEMEN)

Wholesalers

They deal with retailers.

Retailers

They deal with customers.

Agents

They represent buyer or seller but do not take title to goods.

Facilitators

They assist in distribution.

MARKET INTERMEDIARIES (MIDDLEMEN)

Wholesalers

Merchant middlemen.

They take title to the goods.

They do not deal with the ultimate consumers.

They buy for reselling.

Their transactions are large in volume.

They cover large trade areas.

They serve as an important link between the manufacturers and the retailers.

Philip Kotler

“Wholesaling includes all the activities involved in selling goods or services to those who buy for resale or business use.”

S.E. Thomas

“The wholesaler or wholesale trader is a trader who purchases goods in large quantities from manufacturers and resells to retailers in small quantities.”

Peter Bennet

“Wholesalers are merchants who buy product from producers or other wholesalers and resell them to retailers, organizational buyers or other wholesalers.”

MARKET INTERMEDIARIES (MIDDLEMEN)

Role of Wholesaler

For Manufacturer

- Distribution efficiency
- Bulk buying
- Financing
- Risk bearing
- Market coverage
- Promotion
- Market Information

For Retailers

- Efficiency
- Assortment of goods
- Financing
- Technical support
- Promotion

MARKET INTERMEDIARIES (MIDDLEMEN)

Retailers

Merchant middlemen.

They deal with customers.

They link manufacturers with ultimate consumers.

Their transactions are small in volume.

They take title to the goods.

They buy from wholesalers for reselling.

The location, display, atmosphere and interpersonal skills are important factors in retailing.

Retailing consists of activities needed to place a product in the hands of ultimate consumer.

Changing life styles, increasing income and credit availability has made retailing popular.

MARKET INTERMEDIARIES (MIDDLEMEN)

Role of Retailers

For Wholesaler

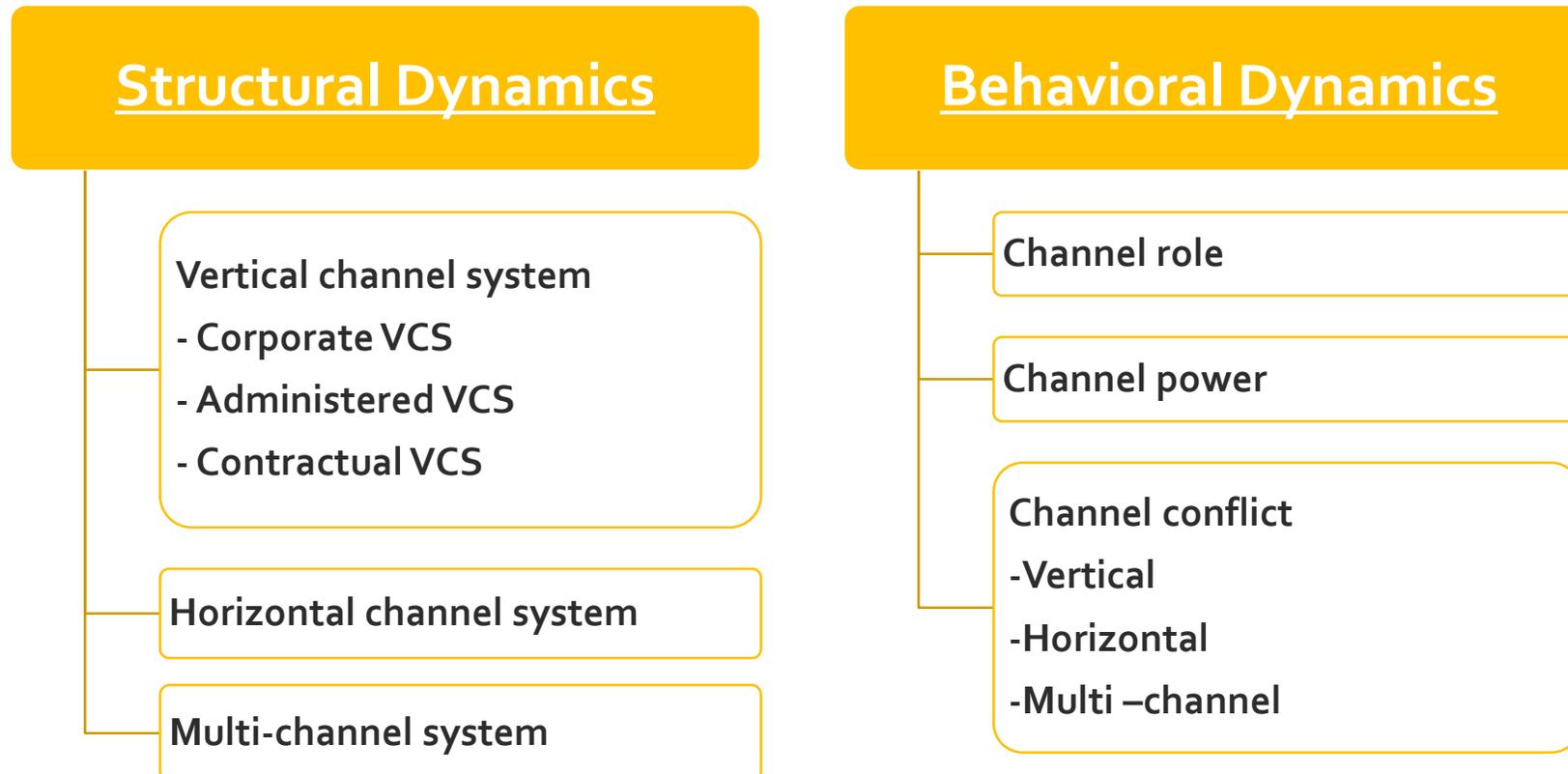
- Distribution efficiency
- Financing
- Market coverage
- Promotion
- Information

For Customers

- Product assortment
- Credit
- Information
- Services

CHANNEL DYNAMICS

Channel dynamics is the changes that evolve in the distribution channels due to emergence of new wholesaling and retailing institutions. They change in accordance with the emergences of new channel participants.



Structural Dynamics

Vertical channel system

- **Corporate VCS**
- **Administered VCS**
- **Contractual VCS**

Horizontal channel system

Multi-channel system

Structural dynamics refers to the modern marketing distribution channels.

Vertical channel system:

Combining two or more stages of the channel under one management is vertical channel system. Marketing executives in an increasing number of firms realize the advantages to be gained by managing the channel as a coordinated or programmed system of participating organizations.

Corporate VCS- This channel system combines successive channel stages from producers to consumers under a single ownership.

Administered VCS- This system includes arrangements wherein independent wholesalers and retailers agree to cooperate with a producer's marketing program.

Contractual VCS- Here, inter-organizational relationships are formalized through contracts and legal agreements that spell out each member's rights and duties.

Structural Dynamics

Vertical channel system

- Corporate VCS
- Administered VCS
- Contractual VCS

Horizontal channel system

Multi-channel system

Horizontal channel system:

Two or more unrelated organizations integrate resources and programs to exploit an emerging marketing opportunity.

Each company lacks the capital, know-how, production or marketing resources to venture alone, or it is afraid of the risk.

The company might work with each other on a temporary or permanent basis or create a joint venture company.

One may produce and other may distribute.

Multi-channel system:

An organization uses several channels to reach one or more customer segment.

E.g. computers can be sold directly, through distributors and through specialty retailers or through internet.

By adding more channels, companies can gain three important benefits. They are:

- Increased market share,
- Lower channel cost &
- More customized selling

Behavioral Dynamics

Channel role

Channel power

Channel conflict

-Vertical

-Horizontal

-Multi-channel

Channel Role:

In channel system, each channel member has certain role to perform and each channel member expects effective role from other channel members. Role of channel member can be either a leading role or a following role. The change in roles may either lead to cooperation or conflict.

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Behavioral Dynamics

Channel role

Channel power

Channel conflict

-Vertical

-Horizontal

-Multi-channel

Channel Power:

Channel power is the ability to influence and control another channel member.

To gain power, one leading channel member gives punishment to other channel members.

Channel member show strong desire to sell strong and popular brand.

If the channel members have good knowledge of distribution and experiences, they show the expert power in channel system.

Based on financial strengths and ownership of strong brands of channel members. Legitimate power provides authority to influence and control.

Behavioral Dynamics

Channel role

Channel power

Channel conflict

-Vertical

-Horizontal

-Multi-channel

Channel Conflict:

Channel conflict is a situation in which one channel member perceives other channel members to be acting in a way that prevents the first member from achieving its distribution objectives.

a. Vertical Conflict-

Conflict between different levels within the same channels.

b. Horizontal Conflict-

Conflict among the members at the same level within the channel.

c. Multi-Channel Conflict-

It occurs when a producer has established two or more channels that sell to the same market.

CAUSES OF CHANNEL CONFLICT

➤ Goal incompatibility/ inappropriateness

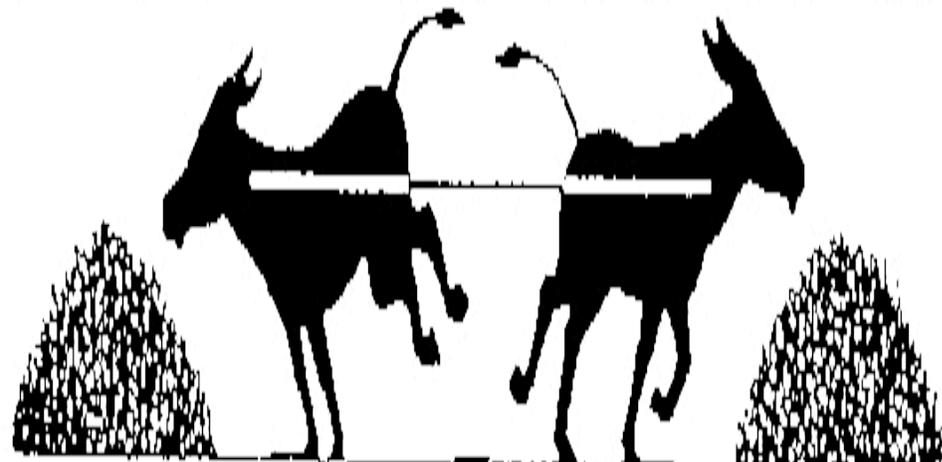
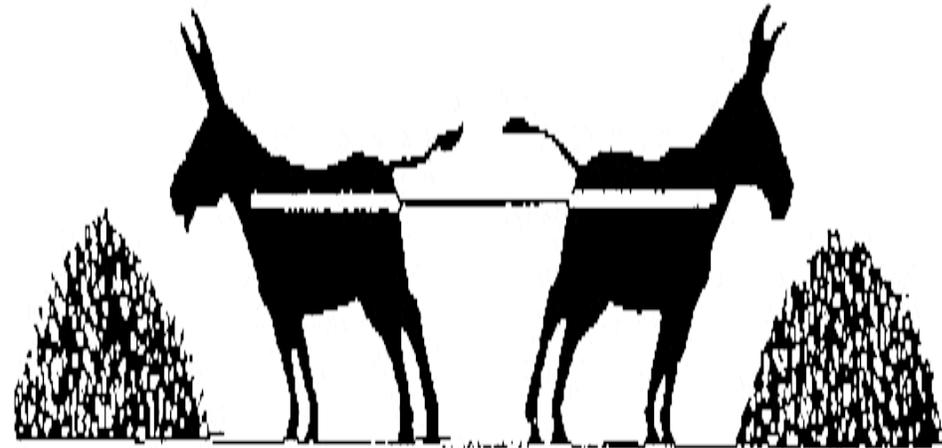
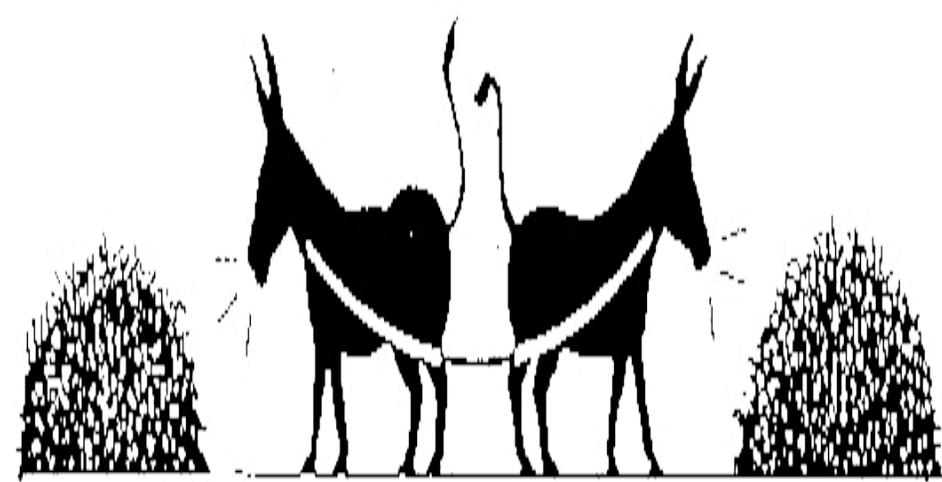
➤ Unclear roles and rights

➤ Communication gap

➤ Perceptual difference

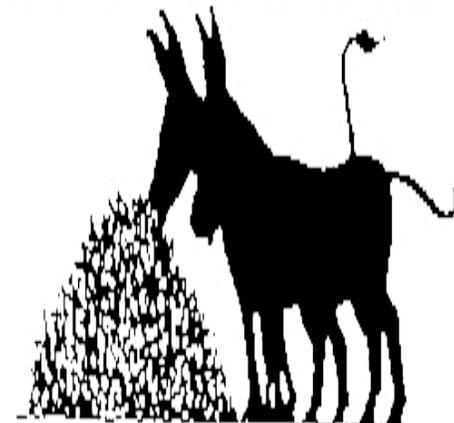
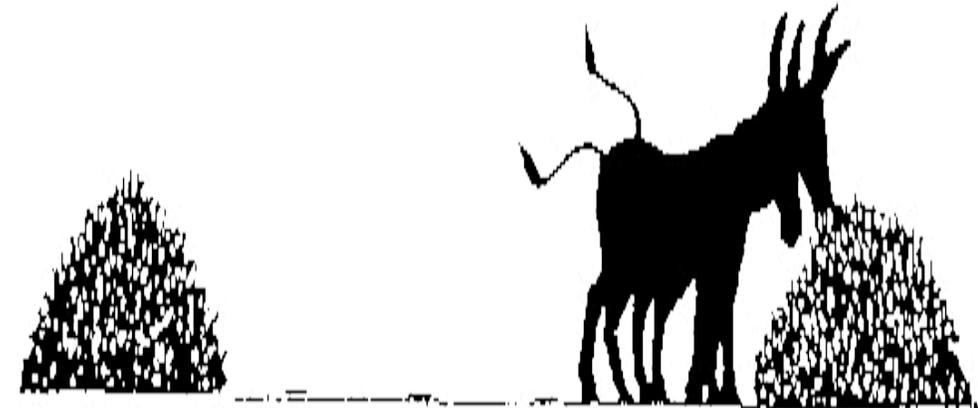
➤ Ideological difference

➤ Intermediaries dependence on the manufactures



CONFLICT RESOLUTION

- Adoption of superordinate goals
- Exchange of employees
- Co-potation- Effort by one organization to win the support of the leaders of another organization by including term in advisory councils, boards of directors and the like. As long as the initiating organization treats the leaders seriously and listens to their opinions, co-potation can reduce conflict, but the initiating organization may need to compromise its policies and plans to win their support.
- Diplomacy, mediation and arbitration
 - Diplomacy takes place when each side sends a person or group to meet with its counterpart to resolve the conflict.
 - Mediation means resorting to a neutral third party skilled in conciliating the two parties' interests.
 - Arbitration occurs when the two parties agree to present their arguments to one or more arbitrators and accept the arbitration decisions.
- Training in conflict handling
- Channel ownership(buy the ownership)
- Resource expansion



LOGISTICS MANAGEMENT OR PHYSICAL DISTRIBUTION

Market logistics includes planning the infrastructure to meet demand, then implementing and controlling the physical flows of materials and final goods from points of origin to points of use, to meet customer requirements at a profit.

It is defined as those activities involved with the choice of the number and location of facilities to be used and the materials or products to be stored or transported from suppliers to customers in all the firm's market.

It affect the number and location of production and storage facilities, production schedules, inventory management and even the firm's level of involvement in the market.

LOGISTICS MANAGEMENT OR PHYSICAL DISTRIBUTION



Physical distribution has now been expanded into the broader concept of Supply Chain Management (SCM).

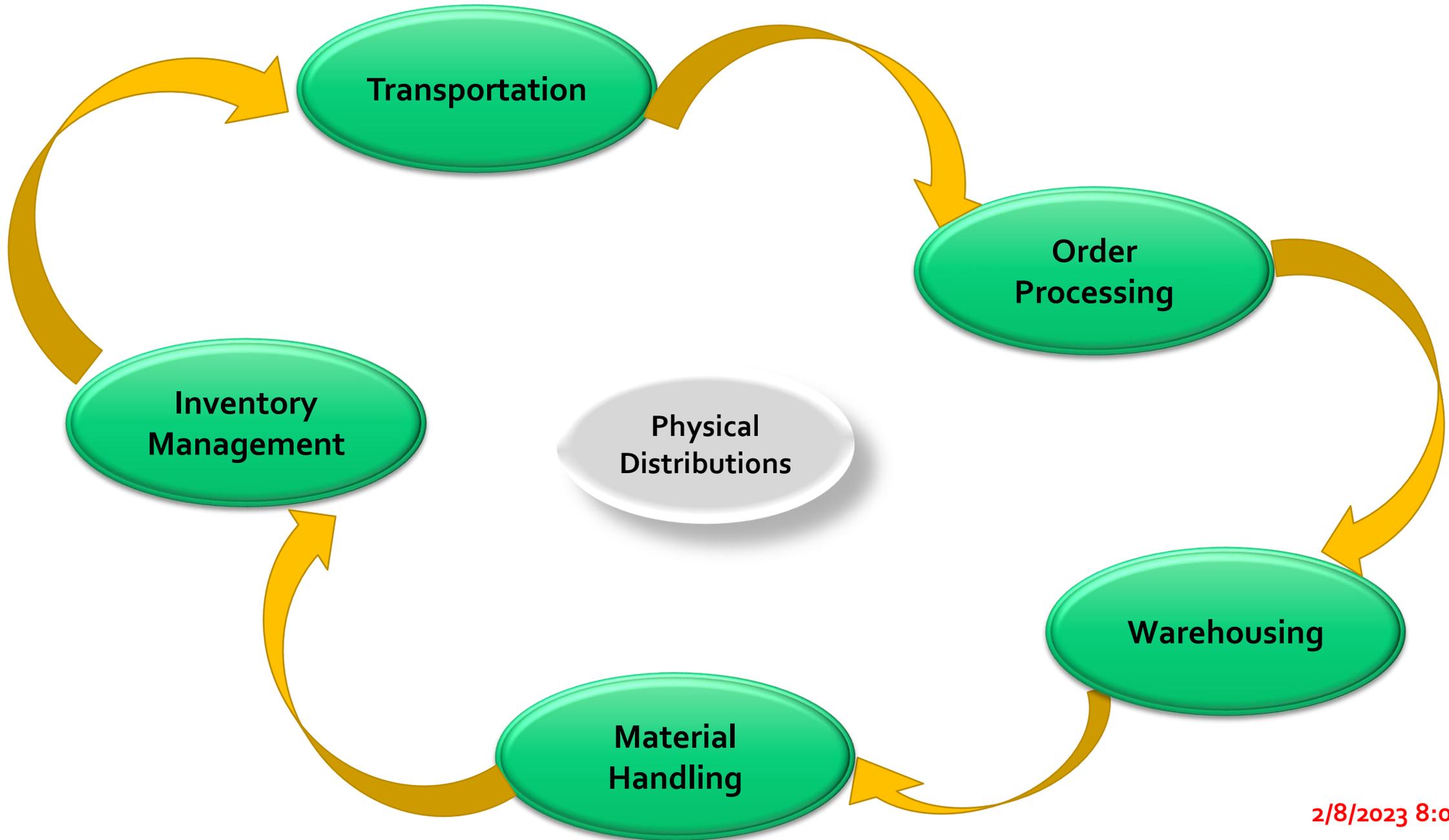
SCM starts before physical distribution and means strategically procuring the right inputs (raw materials, component and capital equipment); converting them efficiently into finished products; and dispatching the to the final destinations.

LOGISTICS MANAGEMENT OR PHYSICAL DISTRIBUTION

Market logistic planning has four steps:

- ✓ Deciding on the company's value proposition to its customers.
 - What on-time delivery standard should we offer?
 - What levels should we attain in ordering and billing accuracy?
- ✓ Deciding on the best channel design and network strategy for reaching the customers.
 - Should the company serve customers directly or through intermediaries?
 - What products should we source from which manufacturing facilities?
 - How many warehouses should we maintain and where should we locate them?
- ✓ Developing operational excellence in sales forecasting, warehouse management, transportation management and materials management.
- ✓ Implementing the solution with the best information systems equipment, policies and procedures.

TYPES/COMPONENTS OF LOGISTICS MANAGEMENT



Transportation

TYPES OF LOGISTICS MANAGEMENT

Different modes of transportation for moving goods:

- a. Roadways
- b. Railways
- c. Waterways
- d. Airways
- e. Pipelines

Carrier Type:

- a. Private Carrier
- b. Contract Carrier
- c. Common Carrier



Choice of mode of transportation:

- a. Suitability
- b. Costs
- c. Speed
- d. Safety
- e. Availability



Inventory Management

TYPES OF LOGISTICS MANAGEMENT

Inventory management involves determining as to how much inventory to hold, when to place orders and how many units to order to minimize the total costs.

The goal of inventory management is to fill the orders placed by customers promptly, completely and accurately, while minimizing both investment and fluctuations in inventories.

Inventory management is required to control inventory costs.

Inventory management is required to control inventory levels.



Inventory management is required to control inventory costs such as:

a. Order processing cost:

Cost of placing an order and receiving the supplies. They are related to ordering, receiving, storage, inspection and quality control. They are also known as acquisition costs.

b. Carrying/holding cost:

Cost of keeping items in stock. The larger the inventory carried, the higher the carrying costs. They relate to storage charges, cost of capital, taxes, insurance obsolescence/uselessness.

c. Stock out cost:

Cost associated with non-availability of inventory. They consists of high costs of crash purchases, inefficient production operations, loss in sales, decreased customer service.

Inventory management is required to control inventory levels such as:

a. Critical inventory level:

Maximum, minimum and reorder levels for each unit of inventory are predetermined. New order should be placed at reorder level point.

b. Economic order quantity/optimal order quantity:

It is the volume at which the sum of order processing costs and inventory carrying cost are at a minimum level. As the order size increases, order-processing costs decline and inventory carrying costs increase. Mathematically, $EOQ = \sqrt{2AO/C}$

c. ABC Analysis:

Inventory items are classified according to their annual consumption cost in A, B, C categories. A items which tie-up the highest investment in inventories are continuously controlled. Control is relaxed on C items.

d. Just-in-time (JIT):

Inventories are received just-in-time to be used up by production. Order quantities are small, deliveries are frequent. The suppliers need to be highly dependable for the JIT concept to work. Substantial savings can be done in inventory costs through JIT.

Warehousing

TYPES OF LOGISTICS MANAGEMENT

A warehouse is a storage facility to store products until they are sold. It involves all the activities required in the storing and preserving of goods between the time they are produced and the time they are transported to the customer. It performs various functions such as assembling, bulk-breaking, storing, packaging and shipping.

Decisions regarding warehousing:

- a. Private and public warehouse
- b. Number of warehouses
- c. Location of warehouses
- d. Third party logistics: Handover all or part of logistic functions to specialized logistic companies.



Material Handling

TYPES OF LOGISTICS MANAGEMENT

It includes all those transportation or movement activities of materials, work-in-process, supplies from suppliers to the producer and the final products from the producer to consumers or users.

It involves selecting proper equipment to physically handle products. Efficient and appropriate equipment can reduce handling costs and minimize losses from breakage, spoilage, and theft.

Material handling techniques:

a. Mechanical Handling :

Fork-lift trucks, cranes and conveyer belts are used.

b. Non-mechanical Handling:

Animal and human labor is primarily used in order to move the goods.



TYPES OF LOGISTICS MANAGEMENT

Order Processing

It is concerned with the firm's ability to deliver the products ordered by the customer as the physical distribution starts with customer order. It can be done manually or through computers.

Order process includes the following activities:

- a. Receiving orders
- b. Handling orders
- c. Filling orders

A firm should consider that order processing time must be reasonable because any delay in order execution creates ill-will and may lead to loss of business. The firm can use manual as well as computer based order processing.



CASE

The manufacturing unit of Royal Drug Research Laboratory established in 1964, was converted into Nepal Drug Limited (NDL) after the second Jan-Aandolan. At the time of establishment, the authorized capital was Rs. 1 Crore and 50 Lakhs. At present, this capital has exceeded Rs. 15 Crores. From the period of its establishment, the factory was under the control and supervision of the Ministry of Forest but afterward, it has been running under the Ministry of Industry. The head office of NDL locates at Babar Mahal in Kathmadu. It distributes more than 100 types of medicine in almost all zones, mostly through stockiest. It also directly supplies needed medicines to Health Service Department, different hospitals, health posts and to many other Government Organizations as well as NGO's. It has also set up some depots in mid-western development region and many remote parts for distribution purpose. Most of the raw materials are imported from South Asian Countries.

Considering competitive market position and accepting demands of different sectors, NDL is trying to expand its production ten times than the present production to fulfill the 80% need of the country's demand.

In spite of such a pious effort, NDL faced many problems during the last 10 years. Most of the problems rounded around employment and remuneration which are posed by the political instability. As a result, the factory failed to meet even 50% of the country's demand. The local markets are dominated by legally or illegally imported drugs.

In course of distribution, the factory has been facing a lot of problems such as political anarchy and vandalism, insecurity in distribution routes, channel member's conflicts, management conflicts, free move across border for foreign drugs, unstable government policies, strong private sector and so on. Because of such problems, NDL is suffering from cumulative losses and the government is considering to put it into the privatization process.

Questions:

- What are the major issues in the above case?
- Critically evaluate the distribution strategies of NDL.
- What made the company suffer from cumulative losses? Among them which factor is dominant for such losses?
- Do you think the government converting NDL into private ownership is a right option? Justify your answer.