BUS 214: PRINCIPLES OF MARKETING II

Study Session 4

1. TOPIC: DISTRIBUTION STRATEGY

2. Introduction

In this study session, you will learn how the marketer can fulfill its ultimate goal of satisfying the consumers. This goal can be accomplished by effectively getting the product to the target customers. We shall therefore endeavour 10 discuss the various channels of distribution, and the importance of each distribution method.

3. Learning Outcomes for Study Session 4

After studying this session, you should be able to:

(a) explain the purpose of distribution;
(b) highlight the channels of distribution;
(c) list the factors that determine the choice of distribution method: and
(d) explain the roles of retailers and wholesalers in the distribution process.

4. Physical Distribution

As defined in Business news magazine physical distribution is the Physical Movement and storage of products and supplies both within and among market channel members. Physical Distribution also refers to transportation, handling and storage of products in the process of moving them from where they are to where they are needed. It is essentially concerned with the actual movement and storage of products after their production and prior to their consumption. Producers and final buyers and most middlemen, in varying degrees perform physical distribution functions. The cost of physical distribution accounts for a significant proportion of the overall cost of goods exceeded only by the cost of raw materials and Labour.

Physical Distribution Management

Physical distribution management (PDM) is concerned with ensuring the product is in the right place at the right time. 'Place' has always been thought of as being the least dynamic of the '4Ps'. Marketing practitioners and academics have tended to concentrate on the more conspicuous aspects of marketing. It is now recognized that physical distribution management (PDM) is a critical area of overall marketing management. Much of its expertise is 'borrowed' from military practice. During the Second World War and the Korean and Vietnam wars, supplies officers had to perform extraordinary feats of PDM, in terms of food, clothing, ammunition, weapons and a whole range of support equipment having to be transported across the world. The military skill that marketing has adopted and applied to PDM is that of logistic. Marketing management realized that distribution could be organized in a specific way so the concept of business logistics developed, focusing attention on and increasing the importance of PDM.

5. Major Activities of Physical Distribution

The major decisions issues involved in physical distribution activities include inventory control, material handling order processing, transportation and storage function.

I. **Inventory Control:** Inventories are in effect, reservoirs of goods held in anticipation of sales. The marketing manager must set both maximum and minimum allowable limits bearing in mind that this will involve sales and cost considerations. The control of inventories is essential, if a company is to avoid the losses associated with overstocking or under stocking of both raw materials and finished goods. A satisfactory production schedule cannot be developed without definite inventory policies. For example: when a firm uses just-in-time, they maintain low inventory levels and purchase products and materials in small quantities whenever they are needed, and must have systematic methods for determining a reorder point to avoid stock outs without tying up too much capital.

II. **Materials Handling:** This refers to the in-store transportation of goods from one place to another. Materials handling is often necessary in stocking goods and these may be done manually or mechanically. Material handling also includes activities associated with the following operations:

1. Loading and unloading trucks, conveyors and containers
2. Lifting and lowering materials to and from work tables, containers and storage locations.
3. Transporting materials to and from receiving, storage, work place and shipping locations
4. Storing materials at raw materials, work-in-process or finished goods location.
5. Packaging, Labeling and movement must be coordinated to maximize cost reduction and customers' satisfaction.

III. **Order Processing:** This refers to the methods firms or organizations use for processing customers orders. Efficiency in order processing can confer suppliers with competitive advantages, minimize their reorder problems and ensure prompt delivery of orders. Order processing consists of three (3) main tasks: order entry, order handling, and order delivery. Order processing can be done manually, but it is usually accomplished through electronic data interchange (EDI).

IV. **Transportation:** This creates place utility by moving goods to places where they are more useful. Transportation may be by land, air, or sea. Motor vehicles and trains may be used on Land, Aero planes may be used in the air, ships, tugs, and barges may be used at sea. The choice of a means of transportation will depend on:

1. The nature of the product, whether it is bulky or light, whether it is easily fragile, perishable, or otherwise.
2. The cost to using the different means;
3. The urgency with which the goods are to be transported.
4. The distance over which the goods are to be transported
5. The security of the goods in that means of transport.
6. The availability of transport facilities such as airports, rail and sea routes.
7. The preference of the owner of the goods.

V. **Storage:** Marketers must make two important storage decisions:

1. Geographic deployment of warehouses i.e. a choice between dispersing and concentrating storage facilities at or near main markets.

2. Ownership of warehousing facilities or renting from outside sources.

This decision will of course be influenced by several important variables including customer's buying patterns and delivery expectations, cost of building and operating warehouses, location of markets and factories, transportation cost etc

6. Channels of Distribution

The Channels of Distribution are the means employed by manufacturers and sellers to get their products to market and into the hands of users. Channels of distribution also refer to the combination of institutions which direct the company's product to consumers. Channels are management tools used to move goods from production to consumption; by which the title to goods is transferred from seller to buyer. In essence therefore, Channels are tools hired to do the job of getting goods from factory or place of production into the hands of the ultimate user. It is natural that the cost of hire should be paid by those who benefit from the services; in most instances, the ultimate consumer.

The entire function of getting goods into the hands of the consumer is often referred to as distribution. This function includes transportation in the broadest sense, as well as the middlemen who handle the goods and help to transfer title to the goods. Thus, it would be unwise and inaccurate to refer to channels of distribution as the middlemen engaged in moving goods from production to consumption unless we include transportation in our category of middlemen. Most businesses use third parties or intermediaries to bring their products to market. They try to forge a "distribution channel" which can be defined as: "All the organization through which a product must pass between its point of production and consumption". Why does a business give the job of selling it products to intermediaries? After all, using intermediaries' means, giving up some control over how products are sold and who they are sold to. The answer lies in efficiency of distribution costs. Intermediaries are specialists in selling. They have the contacts, experience and scale of operation which means that greater sales can be achieved than if the producing business tried running a sales operation itself. There is a variety of intermediaries that may get involved before a product gets from the original producer to the final user. These are described briefly below:

Retailers: Retailers operate outlets trade directly with household customers. Retailers can be classified in several ways:

1. Type of goods being sold (e.g. clothes, grocery, furniture)
2. Type of service (e.g. self service, counter service)
3. Size (e.g. corner shop, superstores.)
4. Ownership (e.g. privately owned independent, public quoted retail-group)
5. Location (e.g. rural, city center, out of -town)
6. Brand (e.g. nationwide retail brands, local one shop name)

Wholesalers: Wholesalers stock a range of product from several producers. The role of the wholesaler is to sell onto retailers. Wholesalers usually specialize in particular products.

Distributors and Dealers: Distributors or dealers have a similar role to wholesalers-that of taking products from producers and selling them on. However, they often sell onto the end user/customer rather than a retailer. They also usually have a much narrower product range. Distributors and dealers are often involved in providing after-sales service.

Franchises: Franchises are independent businesses that operate a branded product (usually a service) in exchange for a license fee and a share of sales.

Agents: Agents sell the products and services of producers in return for a commission (a percentage of the sales revenues)

7. Functions of Distribution Channel

The main function of a distribution channel is to provide a link between production and consumption. Organizations that form any particular distribution channel perform many key functions:

Information: Gathering and distributing marketing information and marketing intelligence which is important for marketing planning.

Promotion: communicating information about the product or services.

Contact: Finding and communicating with prospective buyers

Matching: Adjusting the offer to fit a buyer's needs, including grading,

Negotiation: Reaching agreement on price and other terms of the offer, as well as assembling and packaging.

Physical Distribution: Transporting and storing goods

Financing: Acquiring and using funds to cover the cost of the distribution

Risk Taking: Assuming some commercial risks by operating the channel (e.g. holding stock)

All of the above functions need to be undertaken in any market. The question is-who performs them and how many levels there need to be in the distribution channel in order to make its cost effective?

8. Factors Affecting Channels of Distribution

The selection of channels of distribution depends first and foremost on the requirements of the market: what the consumer wants, and how much is wanted. But the manufacturer entering a market must also determine what he himself wants; what share of the market he wishes to attain how much he is willing or able to invest in order to attain it, and how best he can reach the market in order to get his desired share of it. There is no over-all blueprint which can tell any firm what the best channels are for them. In each instance, the firm has to consider their own objectives, resources and of course the channels which are available to them. The individual manufacturer or seller making a choice of how he will get his goods most economically and efficiently into the hands of potential consumers has to consider several specific factors. The following factors will always enter into his calculations:

1. **The Type, Size and Nature of Customers' Demand:** The market is naturally going to influence the channels selected for customer's demand.

2. **The nature of the Company's Business:** A manufacturer of fine writing paper in Lagos has only certain channels open to him if he wants to sell paper for letterheads to a

corporation in Kano. But the manufacturer of locomotives has only a handful of potential customers and he deals directly with them.

3. **The Type of Product Sold:** Is it a consumer product or an industrial one? Is it a capital good (that is, a piece of major equipment capitalized over a period of years), or an industrial material, such as a heavy chemical? Is it bulky like petroleum products or individually packaged units, like cigarettes?

4. **The Price of the Unit of Sale:** What does the unit sell for? The monetary value of a typical product or services set the limit as to how the channel should be.

5. **The Price, Margins and mark-ups necessary to induce distributors to handle the goods:** The performers of the different services have to be compensated for their services. How much does the distributor need to make to induce him to handle the product?

6. **The Extent of the seller's product line:** The manufacturer of only one product or a limited line of product has a distribution problem entirely different from that of the multi-product manufacturer with an extensive line. For example, there is little similarity between the problem of manufacturer of aluminium window sash and that of a manufacturer like General Foods which produces several hundred products.

9. Summary of Study Session 4, 'Distribution Strategy'

Now that you have completed this study Session 4, you have learnt that managing distribution doesn't seem to get any easier. In fact, it gets more challenging by the day. Meeting challenges such as ever-increasing customer's demands and other compliance requirements, and growing competitive pressures while simultaneously reducing operational expenses-is a difficult proposition. To succeed in this dynamic environment, it is imperative that marketers carefully evaluate their distribution channels with a view to make it function more effectively. Generally production is incomplete until output reaches the end user in an effective and efficient manner.

10. Self-Assessment Questions (SAQs) for Study Session 4

Now that you have completed this study session, you can assess yourself with the following questions:

(a) What are the factors to be considered while selecting a channel of distribution?
(b) Discuss the major decision issues involved in physical distribution.
(c) Explain the roles of channel of distribution in marketing.
(d) Distributors are a cog in the wheel of distribution. Do you agree?

11. Notes on SAQs for Study Session 4

12. References

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