Introduction to distribution management

A nice morning! You are in your local market for buying vegetables, fish, grocery items or meat. But are you buying vegetables from farmers, fish from the fishermen or toothpaste form the company directly? Answer is big NO! These products have reached you after passing through various layers form the manufacturers and producers. This whole mechanism sums up to the distribution system. Even after the favourable product features, affordable pricing and well communicated promotions, if the product is not readily available in the market, then the ultimate purpose is not served; hence the importance of the distribution management. For this distribution or ***Place*** is an important tool of the marketing-mix. Hence, Lee Iaacoca, the legendary ex-boss of General Motors has commented, *"The company with the finest distribution system often wins the battle for market share and can substantially block a rival form penetrating a market."*

By distribution management, we mean the flow of physical goods, title, payment, information and promotion to ensure the availability and accessibility of the products to the consumers at proper time. There could be 3 types of flows:

- Forward flow: Some functions (physical, title, promotion) constitute a forward flow of activity from the company to the customer.
- Backward flow: Some functions (ordering, payment) constitute a backward flow from consumers to the company.
- Both directions: Some functions (information, negotiation, finance, risk-taking) occur in both directions.

Managing Marketing Channels

The English word 'channel' is based on the Norman word for canal. In marketing terms, this can be interpreted as the journey taken by products and/or services as they flow form their point of creation to points of intermediate and final use or consumption. A manufacturer selling a physical product and services might require 3 channels: sales, delivery and service. But due to complexity of operation and widely dispersed customers, most of the manufacturers cannot deliver their products directly to the consumers and have to depend on various intermediaries or Marketing Channels. The Marketing Channels are the sets of interdependent organisations involved in the process of making a product or service available for use or consumption. The members of the marketing channels perform following key functions:

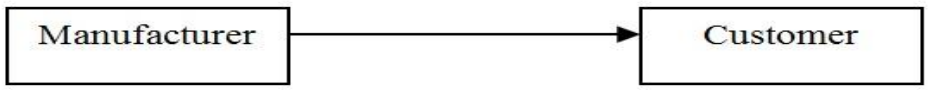
- They oversee actual transfer of ownership form one person or organisation to another. The marketing channels receive products form a company or a representative of the company and transfer to another company or a representative of that company in the next level of distribution channel
- They assume risks connected with carrying out channel work. There are always some risks attached with the physical transfer of products in the form of pilferage, damage, misplacement etc. Although most of the companies pay for the valid claims, but still the intermediaries have to take risk in distributing the products properly to nullify any mistake on their part.
- They provide for the successive storage and movement of physical products. The products move form manufacturer's office or factory to final customers through some sequential stages.
- They take care of collecting buyers' payment and paying back to the seller in due time.
- They acquire the funds to finance inventories at different level in the marketing channel. Keeping inventory and turning the stock effectively to minimise the cost of idle inventory are the major decisions taken by them
- They place orders with the manufacturers as and when needed. They constantly keep in touch so that there is no stock out of the product.
- They reach agreement on price and other terms so that transfer of ownership or possession can be implemented. There are firmly laid rules and regulations (mostly written) regarding commission structure, credit period, discount amount for early payment, payment terms and producer guarantees against defective merchandise or price declines. A guarantee against price declines gives distributors an incentive to buy larger quantities.

- They develop and disseminate persuasive communications to stimulate purchasing. This is specially seen at the retail point, where the retailers often suggest taking certain product and rejecting some other.
- They participate in trade promotion schemes organised by the companies by promoting products with more emphasis.
- They provide pre and after-sales service.
- They gather information about potential and current customers, competitors and other forces and factors in the marketing environment.

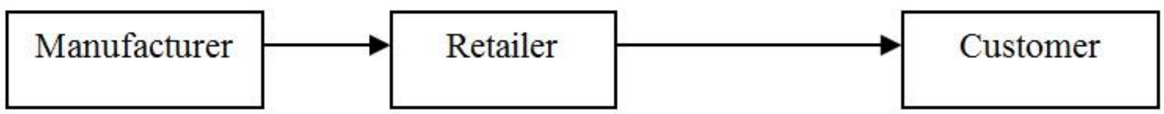
We have defined marketing channel as a set of interdependent organizations involved in the process of making a product or service available for use or consumption. The definition bears some explication. It first points out that a marketing channel is a “set of interdependent organizations.” That is, a marketing channel is not just one firm doing its best in the market --- whether that firm is a manufacturer, wholesaler, or retailer. Rather, many entities are typically involved in the business of channel marketing. Each channel member depends on the others to do their jobs. The definition makes clear that running a marketing channel is a “process.” It is not an event. Distribution frequently takes time to accomplish, and even when a sale is finally made, the relationship with the end-user is usually not over. For example, think about an end user purchasing a microwave oven and it demands for post-sale service. Finally, what is the purpose of this process? The definition claims that it is “making a product or service available for use or consumption.” That is, the purpose of channel marketing is to satisfy the end-users in the market, be they consumers or final business buyers. Their goal is the use or consumption of the product or service being sold. A manufacturer who sells through distributors to retailers, who serve final consumers, may be tempted to think that it has generated “sales” and developed “happy customers” when its sales force successfully places a product in the distributors’ warehouses. This definition argues otherwise. It is of critical importance that all channel members focus their attention on the end-user.

The producer and final customers are part of every distribution channel. Depending on product nature, type of customers and degree of intensity of distribution networks, there could be various numbers of intermediaries (designated as length of channel) between manufacturer and customers.

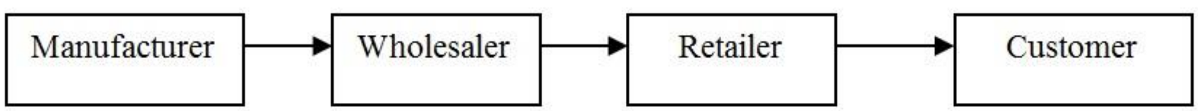
- 0-level channel or direct-marketing channel: This consists of a manufacturer selling directly to the final customer. The major examples are telemarketing, door-to-door sales, mail order and manufacture-owned stores.



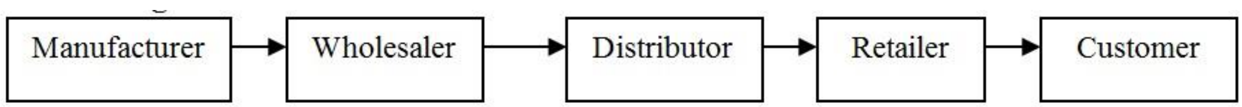
- 1-level channel: This contains one selling intermediaries between manufacturer and customer.



- 2-level, channel: This contains one, two or three selling intermediaries between manufacturer and final customer.



- 3-level channel: This contains three selling intermediaries between manufacturer and final customer.



There could be more levels of channels depending on the intensity of distribution network. The channels normally describe a forward movement of products. But there are some cases of reversing the flow of materials, where backward channels of distribution are needed. The consumer must be motivated to undergo a role change and become a producer or marketer of trash through backward channels in order to initiate the reverse distribution process. The example is plastic or newspaper recycling.

The relative strengths of direct and intermediary routes for managers can be summarised as follows:

Direct method

- It enables organisations to build strong relationships with consumers
- It puts the distribution network under the control of the manufacturer
- It increases margins on sales by cutting out the mark-ups of intermediaries
- It provides opportunities to complement and reinforce sales made through other methods
- It allows organisations to reach parts of markets not accessible through other methods

Intermediaries

- These help buying more per order than individual consumers
- The economies of scale operate to mutual benefit (i.e. manufacturers produce in bulk; intermediaries buy in bulk)
- They are physically closer to consumers and can provide market information
- They increase opportunities to make sales by bringing complementary products together to the benefit of the consumer
- They can offer after-sales service in locations convenient to consumers, rather than returning products to a factory
- Fewer relationships are required to maintain the distribution network than in dealing directly with thousands of individual consumers.

Marketing channels create four types of utility

1. Time utility–created by having products available when the customer wants them

2. Place utility–created by making products available in locations where customers wish to purchase them

3. Possession utility–created by the customer having access to the product to use or to store for future use

4. Channel members sometimes create form utility by assembling, preparing, or otherwise refining the product to suit individual customer tastes.

The concept of marketing channels is not limited to the distribution of physical goods. Producers of services and ideas also face the problem of making their output available and accessible to target populations. In designing the marketing channel, the marketer must understand the service output levels desired by the target customers. Channels produce 5 service outputs:

- **Spatial convenience**: The degree to which the marketing channel makes it easy for customers to purchase the product. Online shopping is becoming more popular in this fast moving world where people do not have time to go to shops. Hence companies like Amazon.com and eBay.com are offering products online so that you can order goods by just clicking mouse while sitting at your home.
- **Product variety**: The *assortment breadth* provided by the marketing channel. Customers prefer a greater assortment because more choices increase the chance of finding what they need. This is why hypermarket like Giant of RPG group is gaining popularity as people fine a lot of products and brands under one roof.
- **Service backup**: The add-on services (credit, delivery, installation, repairs) provided by the channel. The greater the service backup, the greater the work provided by the channel. Maruti developed extensive dealer and after-sales service network so that a person willing to repair a Maruti car does not have to wonder much. Eureka Forbes is another example that offers door-to-door sales and maintenance facilities for their products like water purifier and vacuum cleaner.

- **Lot size**: The number of units the channel permits a typical customer to purchase on one occasion.
- **Waiting time**: The average time customers of that channel wait for receipt of the goods.