
UNIT 19 DISTRIBUTION STRATEGIES

Objectives

After completing this unit you should be able to:

- appreciate the role of distribution channels in the overall marketing of products
- understand the role and services provided by various intermediaries in the distribution channel
- understand the factors involved in selection of an appropriate channel mix
- understand the tasks related to physical distribution of products

Structure

- 19.1 Introduction
- 19.2 Importance of Channels of Distribution
- 19.3 Alternative Channels of Distribution
- 19.4 Role of Middlemen in Indian Economy
- 19.5 Selecting an Appropriate Channel
- 19.6 Physical Distribution Tasks
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19.1 INTRODUCTION

In an earlier unit we discussed the importance of placing the right product to the right customer. The distribution strategy is concerned with the product or service placement. Broadly speaking, there are two categories of issues and decisions which need to be handled while designing the distribution strategy as part of marketing mix. These are: (a) management of marketing channels and (b) the management of physical supplies. In this unit we will discuss these two areas of distribution decisions.

19.2 IMPORTANCE OF CHANNELS OF DISTRIBUTION

Channel decisions refer to the managerial decisions on the selection of best routes or paths for moving goods from the producer to the consumer. Channels of distribution are concerned not only with the physical movement of goods but also with their promotion, selling and marketing control.

The term channels of distribution is used to refer to the various intermediaries who help in moving the product from the producer to the consumer, There are a variety of middlemen and merchants who act as intermediaries between the producers and consumers.

Channels of distribution are the most powerful element among marketing mix elements. Many products which were intrinsically sound died in their infancy because they never found the right road to the market, On the other hand, by developing a sound distribution network and launching aggressive advertisement campaigns, a company can carve out a niche for itself. Many Indian manufacturers took advantage of the distribution network built by erstwhile companies whose business was considerably reduced due to changes in import policy. Coca Cola had to leave the Indian market and Campa Cola got a ready made distribution network. Colgate-Palmolive whose toothpaste is reigning supreme in the Indian market has dealer network of 1,00,000 spread over 3,500 towns and cities in India. Balsara which has competed effectively with Colgate also has a good dealer network.



A number of utilities are created by prompt and efficient performance of the function of physical distribution. Channels of distribution help movement of goods from one place to another and thus create place utility. They make it possible for the consumer to get the goods when he wants them and thus create time utility. They bring goods to the consumer in a convenient shape, unit, size, style and package and thus create convenience value. They make it possible for the consumer to obtain goods at a price he is willing to pay and under conditions which bring him satisfaction and pride of ownership and thus create possession utility.

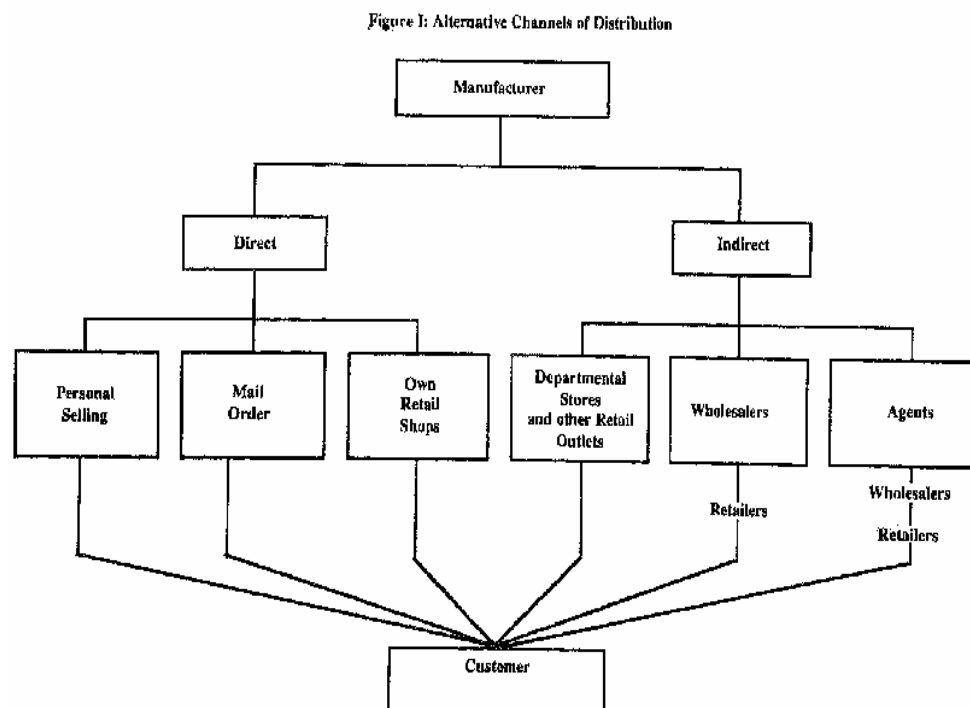
19.3 ALTERNATIVE CHANNELS OF DISTRIBUTION

Channels of distribution can be grouped under two major headings: (i) Direct Selling by manufacturer and (ii) Indirect Selling through middlemen.

For direct selling, the first option involves supplying the product to the customer using your own salesmen and arranging your own deliveries. The second option is using the medium of post office. You obtain orders from your customers who respond by mail or telephone to your advertisements or to letters mailed directly to their houses. You deliver your products to them through mail or through some other carrier. The next alternative is to establish your own retail stores. Bata Ltd., for example, has established its own retail stores throughout the country. This practice has also been adopted on a smaller scale by a number of textile mills who have their own retail shops like Calico Mills, Raymonds, DCM etc., has franchised a number of retailers to sell their products to the consumers.

But in most cases, manufacturers have to take the help of a variety of agencies or middlemen to reach their ultimate customers. These agencies are called by various names which generally follow the services they perform. They are generally classified as (i) functional middlemen or (ii) merchant middlemen. The functional middlemen are those intermediaries who perform various marketing functions without having title to goods. More important of them are mercantile agents like brokers and commission agents. On the other hand, merchant middlemen obtain title to the goods with a view to selling them at a profit. They take the risk involved in marketing and work not for a certain percentage of commission but for a margin of profit. More important of them are wholesalers and retailers.

The following figure shows the various options available to the manufacturer to reach his customers:





Let us briefly describe each of these options.

Direct Selling

An example of direct selling is provided by Eureka Forbes Ltd. (EFL) a Bombay based company, which markets vacuum cleaners and water purifying equipment. It believes that if the market is in the customer's house, the best way to get there is to knock at the door. The company has clearly demonstrated that door-to-door selling can be effective in Indian conditions. Its salesforce of over 500 people spread out over nearly 40 branch offices in 29 towns make it the country's largest commercial direct sales organisation. Between 1982-83 and 1985-86, their sales of vacuum cleaners, water purifiers etc. have gone up from Rs. 3.3 crores to Rs. 11 crores. They took the cue from Electrolux, the world's leading manufacturer of vacuum cleaners, and a firm believer in door-to-door selling. During the last few months EFL has tried to reach the customers through distributors also.

The main point in favour of direct selling is the need to: (i) enlighten about additional features and (ii) educate the user about how to use it.

Mercantile Agents

Brokers

They take neither possession nor acquire ownership of the goods but only serve to bring the buyers and sellers together. They negotiate purchase and sale of goods on behalf of other parties. Their task is over as soon as the buyer and the seller come to terms in respect of the purchase or sale of the goods. The broker works for a certain percentage of commission on the business transacted by him on behalf of his principal.

Commission Agents

They also sell goods on behalf of the sellers. But they differ from brokers in that they not only negotiate the sale of goods but also take possession of the goods and make arrangements for the transfer of title to the goods. The commission agent has to perform the functions of warehousing, grading, packing or sampling in addition to assembling and dispersion. For their services, the commission agents get a certain percentage of commission on sales. If the commission agent is authorised to sell on credit and agrees to bear the risk of bad debts for some additional commission, he is known as a **del credere** agent.

Merchant Middlemen

Wholesalers

Wholesalers are those merchants who act as intermediaries between the primary producers, manufacturers or importers, on one side, and retailers or industrial consumers on the other. They buy goods and commodities in large quantities with a view to selling them to retailers in smaller quantities. They assemble merchandise from many sources, warehouse and regroup the goods for convenient buying by retailers. Thus wholesalers make it possible for the manufacturer to sell to a large number of retailers to whom the merchandise cannot be easily sold directly from the factory.

The wholesaler performs the following important functions of marketing:

- **Assembling**-The wholesaler collects varieties of product from different manufacturers and keeps them in stock for sale to the retailers at the time when they need them.
- **Dispersion**-The products assembled and stocked by the wholesalers are supplied to the retailers who may be widely scattered.
- **Warehousing**-The goods purchased by the wholesalers from the manufacturers and producers have to be stocked in warehouses pending their sale to the retailers. The arrangement for such storage is the responsibility of the wholesalers.
- **Transportation**-The wholesaler has to move the goods from the various factories to his own warehouse and from there to the retail stores. He may do so either by employing his own vans or by hiring public carriers.
- **Financing**-The wholesaler in most cases provides goods on credit to the retailers.
- **Risk-assuming**-The wholesaler assumes the risk arising out of the changes in prices and demand as also loss due to spoilage or destruction of goods in his warehouse.
- **Grading and Packaging**-The wholesaler has to sort out different grades of products according to quality and other considerations and pack the goods into smaller lots for retailers.



A resume of the above functions makes it clear that the wholesaler renders valuable services to both the manufacturers and the retailers.

Services provided to the manufacturers by wholesalers include the following:

- The manufacturers get the benefit of bulk orders from wholesalers. He does not have to take the trouble or incur the expenses of procuring large number of small orders.
- Wholesalers remain in close touch with the retailers and keep themselves informed about the changes in the direction and pattern of demand and thus help the manufacturers in planning their production.
- The wholesaler places bulk orders with the manufacturer and thus enables him to concentrate on production.
- The wholesaler relieves the manufacturer of the botheration of performing most marketing functions.

Services provided by wholesalers to the retailers include:

- The retailer need not stock goods in unduly large proportions and can replenish his supplies from the wholesalers as and when necessary.
- The wholesalers provide goods to the retailers on credit and the retailers need not block their funds in idle inventories.
- The wholesalers generally specialise in a few lines of goods and try to obtain their supplies from the best and the cheapest source. The advantages of such specialisation are passed on to the retailers in the form of lower prices.
- The wholesaler assumes most of the risks involved in marketing functions such as price fluctuations and spoilage or pilferage of goods.
- Wholesalers keep the retailer informed of the new types of products that are being introduced in the market. This gives the retailers an opportunity to extend their business.

Retailers

A retailer is defined as "a middleman who sells mainly to the ultimate consumer. He may sell to institutions but most of his sales are made to industrial or household consumers. He usually sells in small lots".

The retailer is the last link and the most important intermediary in the chain of distribution. Mass production in the present day set-up is geared to the requirements of the ultimate consumer. Retailers are directly and intimately in touch with the ultimate consumers and thus occupy a strategic position in the whole chain of distribution. The basic feature of retail trading is the purchase of goods from wholesalers and selling it in small lots to consumers. Thus retailing includes all activities directly related to the sale of goods to the ultimate consumers.

The retail shop is one of the oldest and most widely used business establishment in any country. Retail business originated through the use of peddlers engaged in house to house sales. This was followed by opening up of small retail shops usually owned by sole proprietors or small partnership firms, which are frequented by customers for obtaining their requirements. In course of time, large retail stores like department stores became popular in developed countries and some developing countries as well. In addition, people living in far off places are served by mail order houses who solicit business by catalogues, advertisement in popular magazines or correspondence. The latest development is retailing through automatic vending machines. Most standard items in standard packs including food items are available in most developed countries through automatic vending machines located at convenient places like railway stations. Milk-vending machines are now being used by Mother Dairy in India.

Functions Performed by Retailers

Following are some of the functions of retailers:

- Estimation of the probable demand of the consumers for the various types of goods dealt by him.
- Assembling of various types of goods from different wholesalers

Sale of the various products to the consumers as and when needed by them

- Physical movement of goods from the wholesaler's godowns to their own establishment in case such a service is not provided by any wholesaler(s)
- Warehousing/storage of goods to maintain uninterrupted supply of goods to the consumers



- Standardisation, grading and packing of goods in consumer packs, if necessary
- Assumption of risk of loss of goods by fire, theft, deterioration, etc., so long as they are not disposed of to the consumers
- Extension of credit to some selected regular customers
- Providing information about consumer tastes and preferences to wholesalers/manufacturers.

Services rendered by the Retailers

- By holding ready stocks of various commodities required by the consumers, retailers relieve the customers of the need for stocking a wide variety of goods which could be extremely inconvenient and cumbersome.
- By keeping a good assortment of the various varieties of a particular product, say soaps, toothpastes, etc. retailers provide a wide variety of choice to their customers.
- By proper display of new products, the retailers keep the consumers informed about the changing trends in production of different varieties of goods, besides helping manufacturers to promote their products.
- Retailers very often guide their customers about the relative merits of the various brands of a particular product and thus help them in the selection of goods.
- Retailers may provide special facilities to their customers, for example, free home delivery, extension of credit, after-sales service, etc.

Effective Coordination Between Wholesalers and Retailers

- Effective coordination between wholesalers and retailers would lead to a reduction in the overall operating expenses involved in the distribution function as follows:
- Economical Buying-wholesalers know what, when and how much the retailers will buy.
- Economical warehousing and delivery-as the wholesaler knows the nature, amount and frequency of retailer's orders, he can plan his operation in the most economical manner.
- Economy in selling because the effort involved in selling is substantially reduced.
- Economy in office and administrative expenses-the work involved can be better planned and organised.
- Reduced wholesale expenses permit the wholesalers to quote lower prices to retailers and this in turn permits a reduction in retail prices which ultimately benefit the consumers.

Type of Retailers

There is a wide variety of retail trading establishments. They vary from hawkers and peddlers to big departmental stores. Hawkers and peddlers move from door-to-door in residential localities to sell their goods. Pavement shops usually arrange their wares at busy street corners or pavements of busy streets. Some traders sell their wares at weekly markets which are very common in rural India, and are not uncommon in urban centres. For example, in Delhi there are weekly markets in all principal localities. Then there are fixed shop retailers who operate from shops in busy markets or even in residential areas. These stores may be either general stores dealing in a wide variety of goods needed by consumers in their everyday life or may be shops dealing in a particular item, as for example, cloth, shoes, building materials, electrical goods, confectionary, etc. Stores dealing in a particular line may further specialise, as for example, children's wear in clothing. Then there may be bigger stores like departmental stores and multiple shops. As all of us are familiar with small scale retail establishments and their modus operandi, we will confine our discussion to a limited variety of large-scale establishments.

Department Stores

A department store is a large-scale retail institution comprising a number of departments, each department specialising in a separate line of products. All these departments are under one roof and one unified control. Department stores offer the widest possible choice of products. The consumer can find all what he needs in one store rather than move around from shop to shop. These stores are located in central places in big cities so that they are easily accessible to customers. Bigger department stores offer a great number of amenities like restaurants, post and telegraph offices, recreation rooms and car parking. A department store indulges in decentralised buying and centralised selling. In fact, department store is a medium of mass merchandising.



Department stores grew up in developed countries mainly to cater to the requirements of well-to-do people who required articles of high quality and looked forward for comfortable shopping. But they have also become popular in urban centres in many developing countries. In India too, we find a number of department stores coming up in urban centres, specially in Metropolitan Cities. Spencers and Nilgiri of Madras, Kamalalya of Calcutta and Akbarally of Bombay may be cited as examples.

Advantages

1. Department stores make shopping convenient to consumers by providing them a whole range of goods in one building.
2. Their central location attracts a large number of customers leading to a large turnover. Thus they can afford to make large profits even with smaller margins.
3. Bulk-buying by department stores enables them to obtain heavy discounts from manufacturers and thus buy at a cheaper rate. There are savings in freight charges as well.
4. Department stores can afford to have effective advertising through press, radio and television and thus they are able to attract more and more customers.
5. Being large business units, department stores can afford to employ skilled and expert staff for all their operations and thus they are able to achieve a high degree of efficiency in their working.

Handicaps

1. Experience has shown that operating costs of department stores tend to become very high because of the necessity to run some departments at a loss to attract customers and heavy emphasis in service. As a result, more often than not, their goods are marked at higher prices.
2. Central location also involves higher rents and thus higher overheads. Central location may not be convenient to persons living in far off places which means that they will make their purchases of articles of everyday use from nearby shops. However, in recent years, department stores have branched themselves out to suburban areas as well to reach the customers nearer their location.
3. It may not be possible for customers in general to receive personal attention which is possible when they deal with small retailers.

Cooperative Stores

Consumers sometimes join together to form cooperative societies to sell goods on retail basis. The basic purpose is to eliminate middlemen and obtain their requirements at a lower price. The capital is subscribed by the members through the purchase of shares of small denominations. Cooperative stores purchase their requirements in bulk. from manufacturers or wholesalers. This enables the cooperative stores to sell their products at somewhat lower prices than the ordinary retailers. These stores usually sell on cash basis and thus avoid the loss due to bad debts. Some example of department stores run. on cooperative basis are Super Bazar and Central Government Employees' Consumer Cooperative Stores in Delhi and Kamdhenu, TUCS and Amudhan in Madras.:

Advantages

1. Consumers can be sure of the quality of goods in the sense that there is no possibility of a adulteration practised by some retailers in the private sector.
2. These stores are able to offer various products at more reasonable prices than most other retailers.
3. Consumers are assured of availability of certain products even when there is an overall shortage in the market and that too at reasonable prices. Retailers usually take advantage of such situations by either increasing prices or earmarking supplies to their favoured customers.

Weaknesses

1. Consumers do not patronise these stores regularly, coming to these stores only in times of shortages.
2. In practice, they have not been able to reap the benefit of bulk purchases from manufacturers.
3. Large cooperative stores tend to suffer from all the drawbacks of bureaucratic management.



In Delhi, the two large cooperative stores mentioned above have usually thrived on the basis of purchases made by Government departments, Government controlled autonomous institutions and public sector undertakings.

Multiple Shops or Chain Stores

The multiple shop system denotes an organisation which controls a number of stores under one common ownership and management. The various stores are located in various cities and in various localities of bigger cities. Multiple shops refer to a group of retail stores dealing in similar types of goods. The basic idea behind the establishment of the multiple shops is to approach the customer in his vicinity unlike department stores which seek to attract customers to a central location. These shops could be operated by manufacturers or by wholesalers with the basic objective of eliminating retailers. Bata Shoes and Usha Sewing Machines are the two examples of products for which multiple shops have been opened by manufacturers in India. Some textile mills also have some shops of their own in bigger cities. If wholesalers decide to operate multiple shops, they indulge in centralised buying with decentralised selling. Some of the important features of these shops are:

- a) Each shop deals in the same type of goods and products.
- b) The goods dealt are generally those meant for everyday use.
- c) There is a high degree of standardisation and uniformity in the interior layout of stores, window displays and outward appearance.
- d) A uniform policy of sales is adopted.

Advantages

1. Multiple shops are able to offer lower prices due to the economics of bulk buying.
2. As sales are on cash basis, losses on bad debts are eliminated and accounting is also made simpler.
3. Rapid turnover and common advertising for all shops make the operation of multiple shops economical.
4. Any shortage of goods faced by one branch can be easily made up by transfer from some other branch in the same city.
5. Since advertising material and interior layout of each shop is similar, each shop serves to advertise the other shops. This leads to further economy in advertising and a quicker turnover.

Disadvantages

1. Multiple shops cannot offer the variety of choice which department stores or even ordinary retail stores offer.
2. These shops do not normally offer home delivery service or credit sales and thus lose a good number of customers..
3. Each unit is controlled by the head office and thus branch managers cannot adjust their sales policy to local conditions and emerging opportunities.
4. Limitations of bureaucratic organisation usually creep in so that the shop personnel tend to lose initiative.

Activity 1

Make a visit. to the following types of retail outlets in your locality:

- A super bazar or cooperative store
- A small grocery store (selling bread, butter, biscuits and other daily necessities)
- A big departmental store
- A store selling only a limited products such as TVs, radios.

Write down your observations about each store on the following points:

- i). Type and range of products stocked
- ii). Type of customers visiting the shop
- iii). Decor and display, both' inside and outside the shop
- iv). Number of salesmen, and quality of their salesmanship
- v). Time involved and ease of making a purchase



19.4 ROLE OF MIDDLEMEN IN INDIAN ECONOMY

Having discussed the various services rendered by middlemen, it may not be out of place to discuss as to how far middlemen are necessary and whether they can be eliminated without affecting the efficiency of the task of distribution. It is very often contended that charges made by the middlemen are much more than are due to them and that this is due to their effort to appropriate as much as possible out of the price paid by customers. It is also argued that "there are too many middlemen. They are nothing but parasites thriving at the expense of the consumers".

Another complaint made against the middlemen, and rightly so, is that during periods of shortage they corner supplies and dictate the prices which the customers have to pay or go without the items. The situation becomes all the more serious when the commodity involved is an essential one. Indian public has not forgotten the problems that it faced due to the prevalent black market in most essential commodities. It may, however, be pointed out that this is more due to the existence of a sellers' market rather than the intervention of middlemen as such. This problem could be tackled by increasing production rather than eliminating middlemen.

More important, even the manufacturers feel that wholesalers are not providing the services expected of them. They do not take interest in increasing sales volume. Neither do they bear any risks arising out of strikes, disturbances, recessions, etc. Most of them just work as transfer agents, i.e they simply help in changing the ownership without shouldering any responsibility. As a step towards elimination of middlemen, some manufacturers have started opening their own retail shops. This is specially so in the field of textiles, for example NTC, DCM, Raymond, etc.

It would thus appear that some manufacturers are trying to perform the functions of wholesalers themselves, and the target of their attack is the wholesaler rather than the retailer. In fact, the Federation of Indian Chambers of Commerce and Industry has pointed out that retailers in India work on very low margins varying from 1.5 per cent to 7.5 per cent. Retailers' margins for some of the articles of daily use are given below:

Sunlight Washing Soap	4.4 per cent
Colgate Toothpaste	7.5 per cent
Nescafe	4.6 per cent
Brooke Bond Tea (500 gms)	3.8 per cent
Dabur Amla Hair Oil	3.8 per cent
Kissan Jam	6.7 per cent
Dalda Vanaspati (1 kg)	1.55 per cent
Glaxo Baby Food (500 gms)	6.3 per cent

The Indian retailer is able to survive on low margins due to his remarkable capacity for thrift. In many traditional shops much of the labour is provided by the family. He performs several functions-distribution, finance and risk taking. When there is keen competition, retailers tend to undercut each other. This is particularly so in branded consumer goods. Needless to say, they compensate themselves by taking higher margins on other products or by increasing the turnover. In times of shortages, retailers tend to exploit the consumers by



unscrupulous dealings. But in general, they try to maximise their overall profits by building large volumes by charging low-unit margins.

Thus it cannot be denied that the middlemen do perform some functions absolutely essential for any system of distribution. Arguments in favour of eliminating middlemen do not mean eliminating the functions like storage, handling and transportation which have necessarily to be performed by someone, either by the manufacturer or by the customer himself. The aim should be to perform these functions and provide the associated services, at the lowest possible cost with the greatest possible efficiency.

Activity 2

Visit the wholesale and retail markets in your town and interview some intermediaries to find out the commission structure for leading brands of the following products:

	Distributor Wholesaler commission	Retail commission mark up.
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- a) Table Fan
- b) Shaving Blades
- c) Moulded Luggage
- d) Common Salt
- e) Soft Drinks

Can you explain why there are differences in the commission/mark up for various products?

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19.5 SELECTING AN APPROPRIATE CHANNEL

The channel decision is important for two reasons. The costs involved in the use of a channel enters the price that the consumer has to pay. The channel decision also has a bearing on other marketing decisions like pricing, product line and pricing. Through proper market feedback, an appropriate selection of channels can reduce fluctuations in production. A rational decision regarding choice of channels of distribution should ensure (a) maximum geographical coverage of the market, (b) maximum promotional efforts and (c) minimum cost.

The following factors usually govern the selection of channels:

- 1 **The Type of Product:** For selling perishable products like bread and milk it is important to have a short channel of distribution which facilitates quick movement from factory to the consumers. Limited channels may also be employed where the movement of goods involves heavy freight and poses problems of transportation such furniture, refrigerators, air-conditioners, etc. But distribution of products having lower unit value and high turnover involves a large number of middlemen as in case of products such as matchsticks, soap, and toothpaste. When the product requires after-sale service as in case of televisions, air-conditioners, automobiles, the choice of middlemen may be limited to only those who are in a position to provide this service: Since not many middlemen may be capable of providing such service, again their number may be limited.



- Medicines and alcohol are products which can be sold only by retailers licensed to do so. Thus the number of retailers dealing in such products may be rather limited.
- 2 **Nature and Extent of the Market:** If the number of consumers is small as in the case of bulky and expensive machinery, the manufacturer may approach the customer directly through his own salesforce; so also, if the consumers are concentrated in a limited geographical area. If the volume of business is large, direct selling may be profitably employed. If the above conditions are not applicable, a larger choice of middlemen may have to be employed. In the case of producer goods of industrial products where the demand is in bulk, manufacturers may also adopt direct selling.
 - 3 **Existing Channels for Comparable Products:** It is a wise policy to study the existing channels of distribution, particularly those used by competitors. In cases where an established network of channels exist the manufacturer may make use of customary channels. For soaps and toothpastes, for example, grocery stores are commonly used.
 - 4 **Buying Habits of Consumers:** When the commodity is usually purchased in small quantities, a larger chain of middlemen is used. So also when a consumer wants to purchase a single unit of a large number of products he goes to the retailer. If a large customer, say an institution, wants to purchase stationery, it goes to a wholesaler because it buys in bulk and takes advantages of the wholesalers' cheaper price. Many big retailers like departmental stores which purchase in such large quantities may find it profitable to contact the manufacturer himself. What is needed is that the manufacturer should aim to match the consumer wants with appropriate channels.
 - 5 **Cost Involved in Distribution:** Cost, no doubt, is a very important consideration. The longer the channel of distribution, greater is its cost, and manufacturers look for ways to keep down the cost and prefer distribution through middlemen who have their own established salesforce as it is more economical and involves less financial commitment. Wholesalers shoulder some of the responsibilities of cost of stocking and transporting goods. But the manufacturer has to provide him with a margin which will either reduce his profit or increase the cost to the buyer.

In making a choice, the manufacturer has to consider his objectives, resources and the channels available to him after considering the above factors. He would like to use the channel of distribution which will produce the combination of sales volume and cost that yields him the maximum amount of profit. There are no set guidelines for channel selection and the manufacturer will have to make his own decision in the light of his own judgement and experience. However, most companies do use multiple channels of distribution to ensure that their products reach the maximum number of people. The task of manufacturer does not end after the channels have been selected. He has to review the services performed by the agencies involved at fairly frequent intervals, keep in close touch with the developments related to the distribution of his product and seek to improve his marketing methods constantly. He may also realise that what was the best channel when the product was introduced, may not be the most effective one when the product is established. The following criteria may be used for evaluation of channel members: (i) their sales performance, (ii) their marketing capabilities, (iii) their motivation to increase the volume of sales, (iv) competition faced by them, and (v) their growth prospects.

19.6 PHYSICAL DISTRIBUTION TASKS

There are several tasks that have to be accomplished as part of physical distribution. These are:

- 1 **Location of Manufacturing Facilities:** There are two inter-related issues: firstly, where to locate the manufacturing facility and secondly, how many facilities should be set-up. The basic decisional parameters would be the availability of the basic raw material and the location of the market. It may be decided to locate the manufacturing facility nearer to the source of supply and ship the finished outputs to the outlying markets or to erect the production facility near to the geographical market to be served and arrange the shipment of the inputs. Location of the Mathura Refinery was based on the latter concept while the super-thermal power plants of the National Thermal Power Corporation are based on the former. The basic consideration involved obviously is the relative costs of



transporting inputs and outputs, including the economics of different modes of transportation which may be used to transport raw materials and finished products. For example, transporting gas via pipeline is more cost-effective than distributing fertilizer through the normal modes of surface transport.

The decision regarding the number of facilities to be created will be influenced by the geographical distance among various sub-national markets to be served, the complementarity of the product line, and the scale economies-of production, among other factors.

- 2 Location of Warehouses:** One important consideration in this context is the nature of the product being sold. If the product is a household consumption item, such as packet tea, soaps or toothpaste, the retail outlets will be at the bottom of the distribution channel. Success or otherwise of the distribution system would depend upon the ability of the company to ensure availability at that level. This obviously would need a comprehensive organisational structure involving a number of central/regional warehouses, a larger number of company depots, field sales staff and an elaborate system of physical transportation of delivery vans, either company-owned, leased or contracted out to an outside contractor.

A manufacturer of capital equipment, on the other hand, can have only one centralised warehouse for the main product but has to maintain a number of service centres to stock spare parts.

- 3 Mode and Method of Transportation:** There are several key decisional points in this context which for long were considered the heart of distribution management. These are:

a) Which mode of transportation would be optimal? The choice is quite wide which include inter alia, trucks, other types of delivery vans, rail, air, or even post parcel (in the case of mail-order business, which is becoming popular in India, especially in the field of designer garments and accessories). The factors to be considered would include the relative costs of the alternative modes of transportation, speed, reliability and appropriateness, keeping in view the product attributes. The last named factor is so crucial that it can sometimes outweigh all other considerations, such as the refrigerated vans of Indian Dairy Corporation which forge a close link between the processing plants and the numerous retailing points for a highly perishable commodity.

b) Mode of physical distribution: A company may decide to own a fleet of delivery vehicles, appoint an outside transport company or lease the vehicles from a leasing company. Alternatives are to be evaluated taking into account the cost of capital in case of company-owned vehicles and the cost of managing the fleet and the charges to be paid to the leasing firm or to the outside transporter. The decision, however, cannot be taken only on cost consideration. For example a company using its own fleet which distinctly displays its logo and brand can derive intangible benefits from higher degree of public exposure and recognition.

- 4 Inventory Decisions:** Bulk of the total distribution cost, which generally account for five to twenty five per cent of the product costs, is incurred on the physical distribution and costs of holding inventories. Since inventory holding costs are always on the rise due to all round increase in prices as well as cost of capital, very careful attention has to be paid on how much inventory should be maintained, of what items and where. Many of these decisions have to be taken keeping in view the broader corporate objective of service reliability, i.e. the capacity of the firm to deliver on time.

- 5 Using External Distribution Agency:** Much of what has been discussed above refers to firms which want to distribute products on their own. However, it is not essential for a firm always to do so. A firm may decide that because of resource constraints or lack of in-house expertise, it would like to concentrate on production and leave the task of distribution to an outside agency. Even the Gujarat Cooperative Milk Federation, the famous produce of Anul brand of dairy products, initially handed over its distribution to Voltas Ltd. There are several firms in India such as Voltas, Blue Star, Spencer and Co., etc. which have created extensive distribution networks, including servicing facilities and can, therefore, provide distribution services to individual producers in a cost effective way. Whether to contract out distribution or not is a major decision and would require an in-depth analysis of the relative cost and benefits, both tangible and intangible, of the alternative courses of action.



All the major parameters relating to physical distribution management have been mentioned above. However, it would be desirable to consider some of these building blocks in detail.

Activity 3

Kindly visit or enquire from the manufacturers of the following products and determine the transport arrangements they have made for distribution of their products.

- i). Ice Cream
- ii). Soft Drinks
- iii). Scooters
- iv). Bread
- v). Television Sets

Are there any differences in the transport modes? What can be the possible reasons?

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19.7 LOCATION OF FIXED FACILITIES

The basic issues to be considered in deciding manufacturing and warehousing facilities have already been pointed out. Briefly, it can be stated that the firm would like to locate a plant so that the sum of the (1) costs of investment, (2) cost of supplying needed materials, (3) fixed and variable costs of manufacture and (4) costs of delivery to customers is minimised within constraints imposed by production requirements.

In most cases, a firm gets committed to the plant site because of many factors, including infrastructural facilities, special tax benefits, etc. The problem relating to distribution management, therefore, basically refer to the location and number of warehouses/depots to be maintained. Of course, the firm may decide to keep stocks centralised at the plant and not maintain any field depot at all. This is true of a large number of firms which cater to only a small regional market.

If a company wants to maintain warehouses, it has to decide whether it would construct its own warehouses or lease space from others. The decision would depend upon the extent of need and the relative cost analysis.

Location of warehouses is decided taking into account a large number of factors, including (a) location of the manufacturing plant, (b) the geographical spread of the market, (c) degree of market concentration, (d) nature and adequacy of transportation, (e) the nature and end-use of the product, (f) the degree of service to be provided in terms of availability, and (g) adequacy of infrastructural facilities, such as access to arterial roads, railways, power, etc.

If several warehouses are maintained, one important issue to decide is to delineate the geographical area which each warehouse has to serve. Theoretical solution to this problem is that the cost of distribution should be the same on the boundary of the two territories to be served by any two warehouses. This can easily be found out by calculating the costs of delivery from each warehouse to a sample of delivery areas.

Location of warehousing facilities and territory assignment problems are also handled through programming techniques. The transportation method which is one of the most

popular form of the General Linear Programming Method is widely used in the territory assignment problem.



19.8 SPECIFIC ISSUES RELATING TO MAINTENANCE OF STOCKS

The ultimate proof of efficiency of distribution system of a firm lies in its ability to service the demands of its customers at all time and at all places. This, however, is only an ideal and hardly ever achieved. The problems in attaining this ideal are many including:

- Inaccurate forecasting of demand
- Non-availability of production
- Failure of the production system
- Congestion in the physical distribution system, etc.

Some of these problems are, however, generic in nature and, therefore, based on past experience. It is possible to visualise the occurrence of such events and their impact, albeit with a certain degree of error. Maintenance of stocks in fact it geared to keeping the process of distribution undisturbed, even though some of the above factors are present.

Stocks are maintained, irrespective of the place where they are held, basically on two accounts: (a) production and (b) demand. Production stocks are of two types: (i) an inventory of production inputs to tide over the disruptions in the supply chain in the short-term and (ii) to produce at the economically viable scale, irrespective of the short-term fluctuations in the demand for the finished output. Some (demand) stocks are maintained to take care of the possible divergence between current production and current demand. Production stocks are intensively analysed in materials management and production scheduling. Determination of demand stocks, however, is an important segment of distribution strategy.

Size of the demand stocks to be maintained depends primarily on the following factors:

- i). Average order size. The larger the average order size, greater would be the stock requirement.
- ii). Average lead time required to replenish the stocks. Longer the lead time, greater the stocks to be held.
- iii). Volatility in demand. Higher the fluctuation in demand, greater would be the stock requirement.
- iv). The degree of service to be provided: If the company decides that it would like to provide a very high level of service in terms of product availability, it would have to maintain a correspondingly high level of stocks.

The degree of product availability to be maintained is to a large extent conditioned by the product characteristics. For example, when a buyer goes to a shop for a particular brand of soap or a toothpaste, he may try another shop nearby, if it is not available in the first shop. But in case it is not available there too, he might buy another brand. On the other hand, he may be perfectly willing to wait for a few weeks to get delivery of a particular brand of a refrigerator or a typewriter: Sometimes, the brand preference can be so strong that buyers are willing to wait almost indefinitely, as was the case some years back for Bajaj Scooter or EC TV, and presently, to some extent, for Maruti Cars.

Logically, the delivery period can be lengthened without or only a little loss to the Company when (i) the products are such whose consumption can be postponed or planned with a long lead time, as in the case of custom-built equipment, (ii) the brand loyalty is very strong, and (iii) the market is essentially a sellers' market. It is obvious that the parameters of the Indian market are changing very fast in a direction which would make distribution one of the most crucial Ps of marketing. The success of the consumer goods giants, such as Brooke Bond, Hindustan Lever and WIMCO, is to a large extent due to their ability to maintain continuous supply to lakhs of retail outlets throughout the country. The ability of the Duncan Agro Industries to penetrate the packaged tea market with their Double brand is largely attributable to the company's large and well-organised salesforce which could maintain an uninterrupted supply chain. The recent marketing success of Maggie brand of Noodles is also to some extent due to the Company's flawless distribution system, including giving display containers to the retailers which also serve as points of purchase advertisement.



19.9 SUMMARY

Distribution is the all-important link between a manufacturer and his customer. The concern is for designing a distribution strategy to facilitate the smooth physical flow of products from the manufacturer to the place from where the customers can buy them.

Channels of distribution refer to the alternative paths through which the goods can be routed. Direct selling and indirect selling through intermediaries such as wholesalers and retailers are the two alternative channels of distribution to choose from. The final choice will depend on the type of product which you are dealing with, number and location of customers and their buying habits and the costs involved. The manufacturer should also consider the specific advantages of each type of intermediary before making the decision.

To ensure quick, smooth and shortest possible route for the physical movement of goods, the manufacturer has also to decide the location of manufacturing facilities, warehouses, and the type of transportation to be used. Proper inventory management is also important so that there are always goods when there is the demand for them.

19.10 KEY WORDS

Channel of distribution: Those institutions which perform all the activities and functions necessary for moving a product and its title from production to consumption.

Wholesaler: An intermediary who buys products from the manufacturer and in turn sells them to retailers.

Retailer: One who sells to the actual customer. The last link in the chain between the manufacturer and customer.

Intermediary also known as middleman. Any person or institution which functions between the manufacturer and customer. He buys from the manufacturer and further sells to another intermediary or the customer.

Broker: An intermediary whose function is only to establish a link between the manufacturer and customer. He does not himself buy or sell any goods on his own account.

Commission Agent: An intermediary who actually buys products from the manufacturer and in turn sells to final customers and in return gets a percentage commission on sales.

19.11 SELF-ASSESSMENT TEST

- 1 Given below is a list of products. What kind of distribution channel (direct or indirect) would you recommend for each of these products and why?
 - a) Personal computer
 - b) A new, exclusive, premium priced range of sanitary fittings (such as wash basins, bath tubs, etc.).
 - c) Textile machinery
 - d) Push button telephone
 - e) Branded spices
 - f) Industrial lubricant.
- 2 A new toy manufacturing company is planning to launch its toys in the market and wishes to appoint retail outlets in all the major towns. What should be the criteria for selecting appropriate outlets. Specify the distinct attributes or features that the company should look for in the retail outlets.
- 3 A company selling fertiliser in the rural markets is contemplating a change from selling through its own salesforce to a system of wholesalers and retailers. What are the characteristics of the rural market which can affect the success of such a channel. What kind of distribution channel would you recommend?



19.12 FURTHER READINGS

Kotler, Philip, 2002 *Marketing Management*: Prentice Hall of India Private Limited: New Delhi.

J. Taylor Sims, J. Robert Foster, Arch G. Woodside, *Marketing Channels: Systems and Strategies* Harper and Row: New York.