DISTRIBUTION

MANAGEMENT

BBA

AN EFFORT OF
NATAKKAR

Hear This Out!

The only reason why I insist in preparing digital Note is to write this section. It always feels good.

So, this Note comes as a fulfilment of promise to Srijana Ma'am that I made in class which was to prepare a Note in Digital form of the entire syllabus of Distribution Management. I hope you get to check it before you provide my internal marks to College Administration!!

So, this is again not a TEXT BOOK of Distribution Management though it may look so, it is not. It is a compilation of Notes that Srijana Ma'am provided to us in the class, digital version of our basic books and internet articles on Microsoft word. I don't intend to violet any copyrights, this is purely for educational purpose. This Note comes at a time when there is no specific book that covers the entire syllabus of distribution management of TU, so if you are still scrolling this in 2025, I will be amazed.

This Note Covers the entire syllabus of Distribution Management, except **Unit 7** as we all have book of Laxman Raj Kandel sir, which meets with all the topic of our syllabus, I request you all to refer to that book for that specific unit.

This Note may not have detailed description of many points in the lessons, it's so because I didn't find any of the description on the topic everywhere and writing my version may lack the authenticity. You all can still consult me if you really want to know my version of the point.

Yes! This Note is entirely dedicated to Srijana Ma'am and my entire batch mate who **believed** in me.

I accept first hand that this Note may contain more Errors than the other one I prepared because of the vastness the course demands. If I only have time I will bring the revised version before board examination (No promise though!!).

You people can always come up with suggestions, I will surely find the excuses first but I will be taking it seriously afterwards. So, if you find any mistakes (Except for *an effort of Natakkar* on footnotes), description errors, any improvements, you can always contact me.

Studying Distribution management was fun for me and preparing this Note was for a good cause.

Again, I would like to thank Srijana Ma'am and shower best wishes to my batchmates.

Keep smiling 😊

(PS: *This Note was prepared under the supervision of experts on a conditioned environment. Imitating act as such may result in serious consequences. Please don't try this at home or college. Stay safe*)

July 2018

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UNIT 1

Introduction

Concept of Distribution Management

The process of planning, implementing and controlling the efficient, effective flow and storage of goods and services, and related information from point of origin to the point of consumption for the purpose of conforming to the customer requirement.

Logistics or the distribution is the process of strategically managing the procurement, movement and storage of materials, parts and finished inventory (and the related information flows) through the organization and its marketing channels in such a way that current and future profitability are maximized through the cost-effective fulfilment of orders.

Supply chain management, logistics and distribution all overlap in some ways. In general, they all affect the methods used by a business to acquire, transport and resell goods within an industry. A central difference is that logistics encompasses more elements of planning and information flow, whereas distribution more often describes the physical movement of goods. Logistics mainly cover planning and information flow whereas distribution more often describes the physical movement of goods.

From a big picture perspective, Distribution encompasses the ways in which a business makes goods available to its customers. It also involves the actual physical movement of goods through a distribution channel.

Objective of Distribution Management

The main task of distribution management is placing the goods in hand of potential customers at the right time and place.

Some of the objectives of distribution management are:

a) **To provide better customer service**

Customer service is the process of ensuring customer satisfaction with a product or service. Distribution management ensures that the expectations formed in the customers regarding the product or service through their encounter with the promotional efforts and their personal needs and desires of the producer are met and thus, satisfy them which as a whole count in as a customer service.

For example:

Implementation of J-I-T (just in time) inventory processes balance goals of meeting customer demand while avoiding high costs of carrying excess inventory. Flexible, responsive distribution allows buyers to order inventory or products from you closer to the times they need them. Thus, they can avoid the extra space, people and resources need to manage inventory. Burger king follows this system.

b) **To increase sales**
The major objective of distribution management is to make the product available through all the channels available to the firm so that the product is available for larger chunk of the population which ensures the growth in the sales of the product.
For example:
The only difference between the large quantity of sales of wai wai noodles in Kathmandu valley and the less quantity of sales of rara noodles is the efficient distribution management

c) **To reduce cost**
Large amount of cost in the organization can be reduced through the intelligent organization of the physical distribution system and determining the optimum number and location of warehouse, improving materials handling, increasing stock turnover, and using sealed containers to ship products.

d) **To establish differential advantage over rivals**
A position of enduring superiority over competitors in terms of customer preference may be achieved through distribution management as well. The ultimate goal of distribution management is to achieve competitive advantage through both cost reduction and service enhancement.

e) **Developing communication**
Distribution management provide ample space for the channel members of the distribution channel to provide the feed back and information regarding the product and its acceptance to the producer and vice versa. The wo way communication in the channel members ensures the healthy relation between the channel members and the consumers.

Distribution Coverage

All marketers are well known to the fact that distribution creates costs to the organization. Some of these expenses can be passed along to customers (e.g., shipping costs) but others cannot (e.g., need for additional salespeople to handle more distributors).

Thus, the process for determining the right level of distribution coverage often comes down to an analysis of the benefits (e.g., more sales) versus the cost associated with gain the benefits.

Some of the levels of distribution coverage are:

a) **Intensive Distribution coverage**
The mass coverage (also known as intensive distribution) strategy attempts to distribute products widely in nearly **all locations** in which that type of product is sold. This level of distribution is only feasible for relatively **low-priced products** that appeal to very large target markets. A product such as **Coca-Cola** is a classic example since it is available in a wide variety of locations including grocery stores, convenience stores, vending machines,

hotels and many, many more. here the cost of distribution is high which should be sought out with the high volumes of sales.

b) Selective coverage

Under selective coverage the marketer deliberately seeks to **limit the locations** in which this type of product is sold. However, the logic of this strategy is tied to the size and nature of the product's target market. Products with selective coverage appeal to smaller, more focused target markets compared to the size of target markets for mass marketed products. Consequently, because the market size is smaller, the number of locations needed to support the distribution of the product is fewer.

Distribution of shopping products such as furniture, smart phones can apply selective coverage.

c) Exclusive coverage

Exclusive distribution is an extreme form of selective distribution in which only one wholesaler, retailer or distributor is used in a specific geographical area.

When the firm distributes its brand through just one or two major outlets in the market, who exclusively deal in it and not all competing brands, it is said that the firm is using an exclusive distribution strategy. This is a common form of distribution in products and brands that seek a high prestigious image. Showroom of being human in Kathmandu is an example of exclusive coverage

Aspects Of Distribution Management

There are two main aspects of distribution management which can be discussed as below;

Distriution Channel	Physical Distribution
• Manufacturers • Marketing intermedieries(Whole seller, Retailers,Agents,facilitators) • End users	• Transportation • Inventory management • Ware housing • Material handling • Order Processing • Customer service

a) **Distribution Channel**

i. **Manufacturers**

They are the producers of the goods and service that seek to transport the goods from their place of production to the market.

ii. **Marketing Intermediaries**

Marketing intermediaries are the middle men who act as a bridge between producers and the ultimate consumers. It includes whole sellers who purchase product in large volume for further distribution from the producer or their agent. Retailers are the one to buy quantity products from the whole seller and sell it to the ultimate consumers in small quantity. Agents are the representative of the manufacturers incase producer doesn’t wish to be a part of the negotiation process.

iii. **End users**

End users are the ultimate consumers who wish to satisfy their needs and desires from the available product. They prefer a direct relationship with the retailers.

b) **Physical Distribution**

i. **Transportation**

Transportation helps in movement of product from one place to another. It plays a crucial role in movement of product in long distance. Producer may prefer either land, air or water transportation based on their nature of product and cost factor

ii. **Inventory management**

Inventory management is the management of inventory and stock. inventory management includes aspects such as controlling and overseeing ordering inventory, storage of inventory, and controlling the amount of product for sale.

iii. **Ware Housing**

A warehouse as wikipedia defines is a commercial building for storage of goods. Warehouses are used by manufacturers, importers, exporters, wholesalers, transport businesses, customs, etc Warehousing is the act of storing goods that will be sold or distributed later.

iv. **Material Handling**

Material handling is the movement, protection, storage and control of materials and products throughout manufacturing, warehousing, distribution, consumption and disposal. A company's material handling system and processes are put in place to improve customer service, reduce inventory, shorten delivery time, and lower overall handling costs in manufacturing, distribution and transportation.

v. **Order Processing**

Order processing is the process or work-flow associated with the picking, packing and delivery of the packed items to a shipping carrier. Order processing is a key element of order fulfillment.

vi. **Customer services**

Customer service is the process of ensuring customer satisfaction with a product or service. Often, customer service takes place while performing a transaction for the customer, such as making a sale or returning an item. Customer service can take the form of an in-person interaction, a phone call, self-service systems, or by other means.

Beyond Syllabus

Importance of Distribution Management

a) Improving efficiency
b) Delivery of satisfaction and standard of living
c) Value addition to the product
d) Means of production
e) Channel of communication
f) Occupation and employment

Unit 2

Fundamentals of Marketing Channel

Meaning and role of marketing channel

A marketing channel/Distribution channel is the 'path' along which goods move from manufacturer to customer.

Marketing channels are the set of **interdependent organizations** involved in the **process** of **making product or service available** for use or consumption.

Main objective of marketing channel is:

a) Make available of goods at a prescribed time to the place of consumer.
b) Maintain sustainability of the company

Various roles performed by Marketing channels can be described as below:

a) Information provider
Marketing channels are the source of marketing information and keep the producer updated regarding the activities of competitors. Retailers share information regarding the sales trend and patterns.

b) Movement of goods/ Title transfer
Marketing channels move goods from factory to the retail outlets going through various processes.

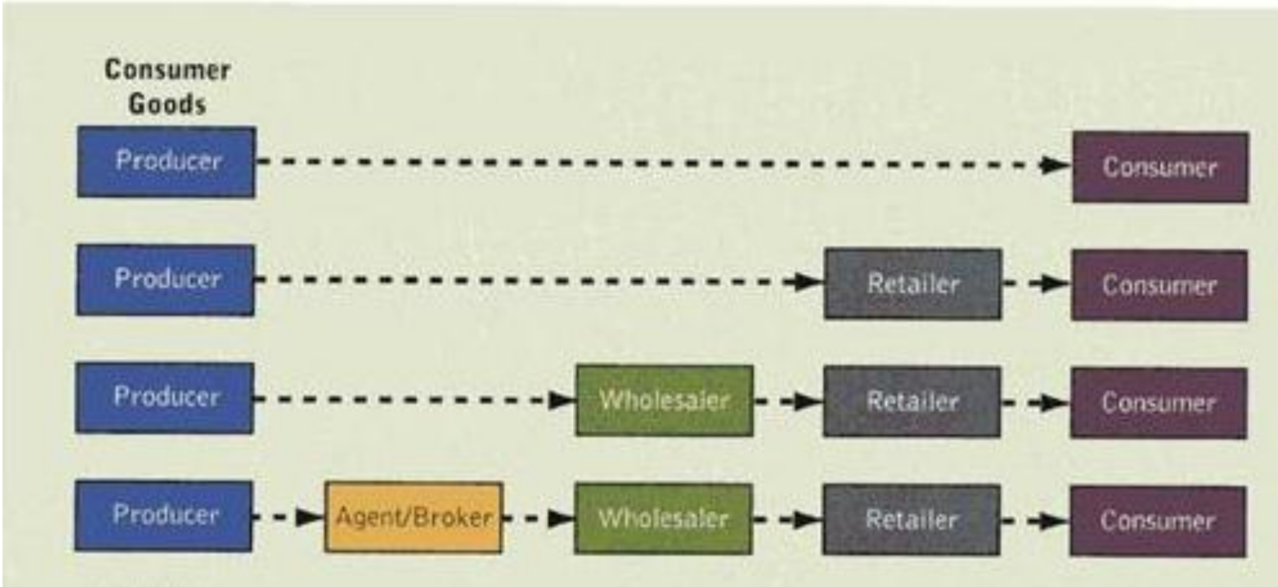
c) Payment collection and processing/Finance
Payment collection and transmittal is the oil that makes channel run. Blockage at any stage would bring the flow of goods to a grinding halt. Marketing channels provide a system of collecting and transmitting payments.

d) Understand consumer behavior
Marketing channels provide deeper insights into consumer behavior than a research on consumer behavior can yield.

e) Production
Marketing channel provide valuable inputs for sales forecasting and sales budgeting.

Marketing structure for consumer and industrial goods

Marketing channel for consumer Goods



a) Zero-level Channel: (Producer......Consumers)

This channel is also called direct channel. In this, the producers sell their goods or services directly to the consumers. There is absence of intermediary or middlemen between the producers and consumers. This channel of distribution is called zero-level. This is the most common, easy and short channel for sales or distribution of goods. Mostly, if the goods are costly or the consumers' number is low, the producers themselves sell their products directly to the consumers. The small producers of perishable products also sell their products directly to the local consumers. Big firms, which want to minimize distribution cost and eliminate middlemen, use direct level distribution channel to sell their products.

b) One Level Channel: (Producer........Retailer......Consumers)

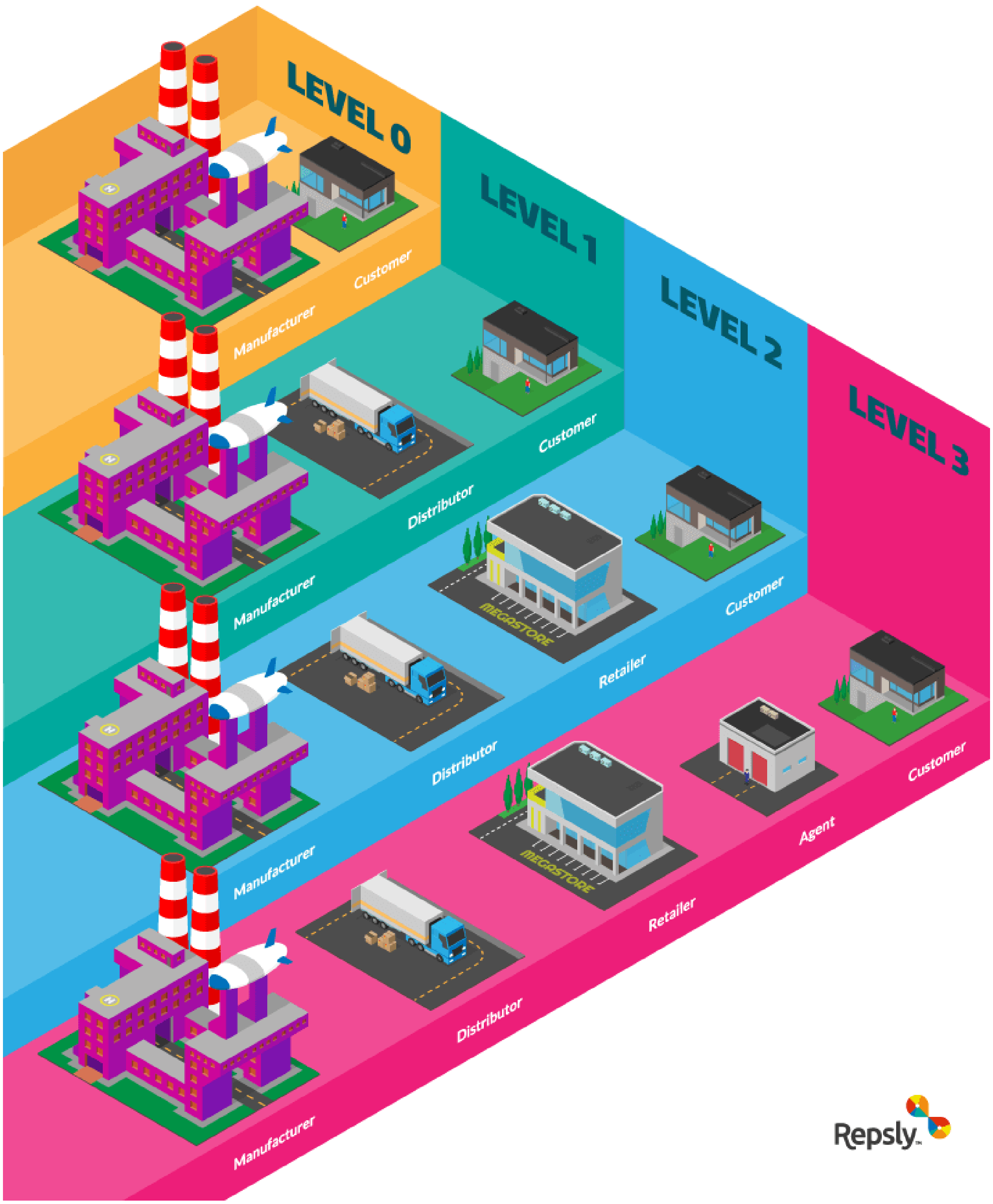
In one level channel of distribution, only retailers remain as middlemen between producers and consumers. In this channel producers sell their products to retailers and the retailers sell them to final consumers. The producers do not seek help of wholesalers or agents to sell their products. Nowadays, this channel has become very popular. The producers themselves supply their products to the final consumers through retailers. Big retailing shops such as departmental stores, super markets, discount houses etc. have begun to appear in markets. They have made easy to sell any goods or services without the presence of wholesalers in the distribution channel. This channel is suitable to sell perishable goods and other goods that need prompt sale.

c) Two-level Channel: (Producer.........Wholesaler.........Retailer...........Consumers)

In this channel of distribution, the producers sell their products to final consumers through wholesalers and retailers. In other words, the producers sell their products to wholesalers, then wholesalers sell them to retailers and the retailers sell to final consumers. This is also called

'Traditional channel of distribution'. The producers sell their products to wholesalers in large quantity. Then wholesalers sell them to retailers in small quantity. then the retailers sell them to final consumers. This channel is used to sell or distribute foodstuffs, medicines, including many other consumer goods. This channel is suitable for the products, which need to be supplied to scattered markets and consumers.

Channels of Distribution

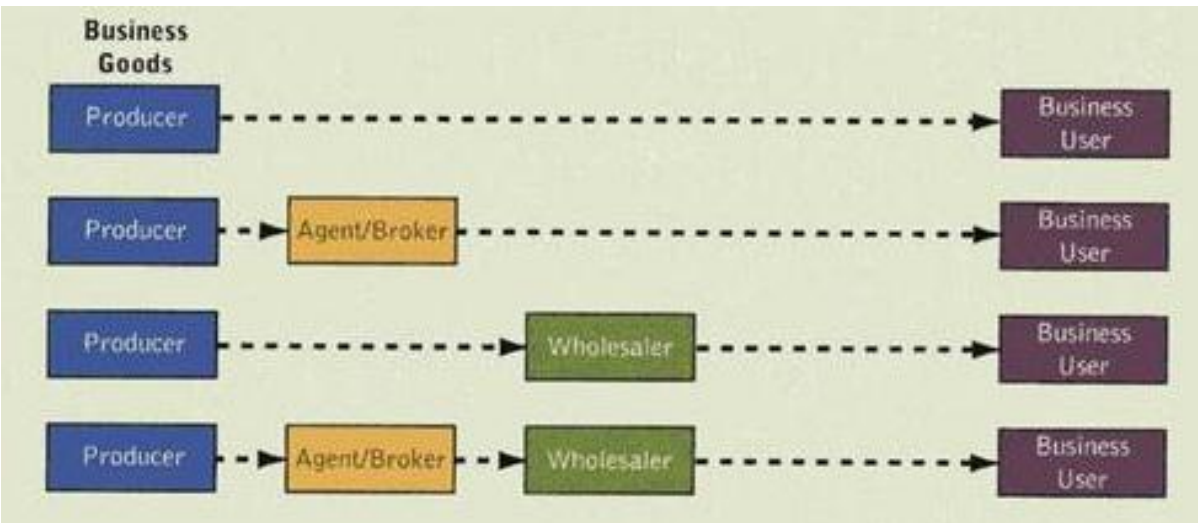


d) **Third Level Channel: (Producer....Agent.... Wholesalers....Retailers.... Consumers)**

This is the longest channel of distribution of consumers goods. In this channel three middlemen are used to supply goods to the final consumers. In other words, the producers sell their products to final consumers through agents, then agents sell them to wholesalers and wholesalers sell them to retailers and finally the retailers sell the goods to consumers. Generally, this channel is needed for selling agro-products, clothes, industrial materials etc. The producers can take help of agents to sell their goods.

This channel is useful to those producers who cannot contact many wholesalers, cannot pay attention to international markets and want to avoid several distribution problems. Mostly, this channel is not used for distribution of most of the goods since it is costly, takes long time and invites several problems.

Marketing channel for Industrial goods



a) **Zero level (Producer ……………. Industrial user)**

In zero level channel goods are supplied directly by the producer to the industrial user. This is a common channel for expensive industrial products like heavy equipment and machines. There needs to be close relationship between the manufacturer and the customer, because the product affects the operations of the buyer.

The seller has to participate in many activities like installation, commissioning, quality control and maintenance jointly with the buyer. The seller is responsible for many aspects of the operations of the product long after the product is sold.

The nature of the product requires a continuing relationship between the seller and the buyer. The large size of the order makes direct selling and distribution economical.

b) **One level (Producer……agent…. Industrial user)**
A company that sells industrial products can employ the services of an agent who may sell a range of products from several producers on a commission basis. Such an arrangement spreads selling costs and is beneficial to companies who do not have the resources to set up their own sales and distribution operation.

The arrangement allows the seller to reach a large number of customers without having to invest in a sales team. But the company does not have much control over the agent, who does not devote the same amount of time and attention as a company's dedicated sales team.

c) **One level (Producer ………Industrial distributor……. Industrial user)**
For less expensive, more frequently purchased products, distributors are used. The company has both internal and field sales staff. Internal staff deals with customer and distributor generated enquiries and order placing, order follow-up and checking inventory levels. Outside sales staff is proactive.
They find new customers, get product specifications, distribute catalogues and gather market information. They also visit distributors to address their problems and keep them motivated to sell the company's products. Distributors enable customers to buy small quantities locally.

d) **Two level (Producer ………Agent…………Industrial distributor…. Industrial user)**
The manufacturer employs an agent rather than a dedicated sales force to serve distributors mainly because it is less expensive to do so.
The agent may sell the goods of several suppliers to an industrial distributor, who further sells it to the business user. This type of channel may be required when business customers require goods rapidly, and when an industrial distributor can provide storage facilities.

Selection of Marketing channels

Several factors affect the choice of a distribution channel. Companies must study buyer behavior, type of product, intermediaries, and a host of other factor while selecting the marketing channels. Company would do well to consider the following factors while deciding on a channel of distribution.

a) **Buyer behavior**
Channel format depends first and foremost on buyer behavior or ho and where customers want to buy the products from. Do they prefer to buy from local retailers, who knows them well and offers advice or credit? Or, do they prefer from larger showrooms located in a distant area? For instance, people may buy their daily needs from the neighborhood corner shop, which is convenient for them. but it is unlikely that they will end up buying readymade garments from that shop.

b) Need for information and service

For some products, customers require knowledge, as in purchasing an electronics item. Such products may also require installation, support, and servicing. Which channels are best-suited to provide customers with the information they need before buying a product? Does the product need specific technical assistance during installation or service? In such cases, intermediaries are often better-placed to provide servicing rather than the original producer. For example, while buying a car, the service requirement of the vehicle will be looked after by an intermediary and not by the company.

c) The willingness of intermediaries

The willingness of channel intermediaries to market the product is also a factor. Retailers invest heavily in properties, rentals, shop fittings, staff, and so on. They may decide not to support a particular product if it requires too much investment or if it does not offer enough volumes or margins. Strong brands may be able to command displays and operate at smaller margins but weak brands have intermediaries, issues. Further, companies want to know whether the intermediary has the willingness and resources for local publicity.

d) Resources of intermediaries

Producers look for efficient servicing of local markets. A key question is whether the intermediary has the salesmen, vehicles, display space, or other specific requirements to promote the products. For example, an intermediary may not be willing to add costs by investing in facilities. Many consumer-product dealers do not service small markets because it requires employing salesmen to go to small retail outlets supplying small quantities and collecting payments—as we shall see in the case of distributing to bottom of the pyramid (BOP) markets in Chapter 10. Distribution suffers as dealers do not wish to add to their costs by investing in vehicles and salaries of a large number of salesmen.

e) Producer issues

Sometimes producers may not wish to invest in transportation and distribution but require intermediaries to do so instead. Another factor is the extent to which producers want to maintain control over how products are sold and the prices that they are sold at. While selling through a retailer, they effectively lose control over the final consumer price, since the retailer is free to set the price and offer discounts or promotional for a producer that their product(s) are actually being stocked or displayed by the retailer. Such situations make producers seek greater control over handling these issues by way of direct distribution.

f) Product factors

Distribution channels also depend on the nature of the products being sold. Large, complex products or industrial products are often supplied direct to customers. For example, machine tools are usually supplied directly to factories and medical equipment directly to hospitals. In contrast, perishable products such as frozen foods, bread, and vegetables require relatively short distribution channels—making it ideally suited to using intermediaries such as retailers.

Other than this, the factor for the selection of marketing channel can also be considered as follows:

a) Product Consideration
   - Unit value
   - Nature of product
   - Types of products

b) Market consideration
   - Types of market
   - Number of potential consumers
   - Geographic concentration
   - Order size

c) The middleman consideration
   - Availability of middlemen
   - Capacity of middlemen
   - Attitudes of middlemen towards producers and policies
   - Service provided by middlemen

d) Company Consideration
   - Financial resources
   - Ability of management
   - Desire for channel control
   - Company's Goodwill

e) Environmental Consideration
   - Legal consideration
   - Social consideration
   - Economic consideration

Marketing channel System

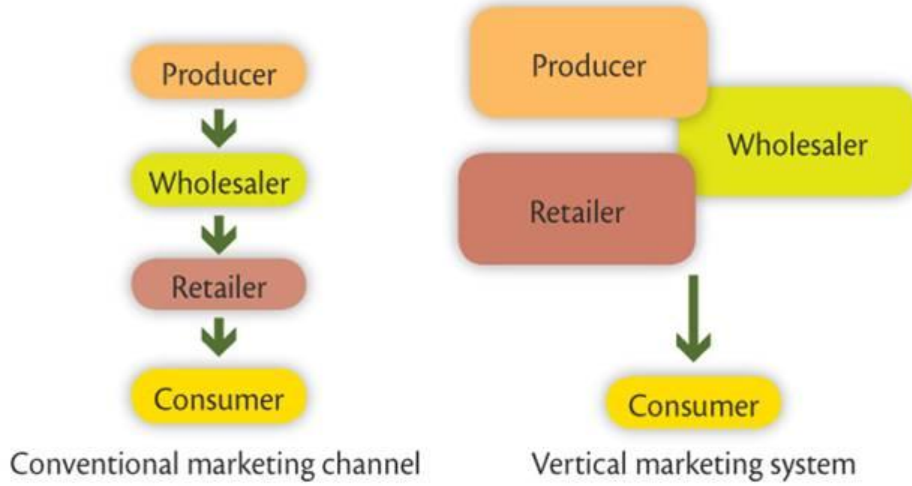
Developing a distribution chain refers to decisions involving the development of new marketing channels where none had existed before, or the modification of existing channels. In following sections our discussion will follow the distribution structures that companies make while distributing products.

a) Vertical channel system

Vertical channel system consists of two channel systems, such as:

- A vertical marketing system (VMS)
  VMS is one in which the members of a distribution channel- producers, whole sellers, and retailers- work together as a unified group in order to meet the consumer needs. Vertical marketing system help define areas of channel members so that such overlaps between various channel members does not occur. The activities of various players are integrated. All of them work in unison to create synergies for the distribution channel. The main advantage of VMS is that all the channel members work in co-ordination and control all the elements from producing to

selling a product. In this way, the company gets direct market feedback anticipates problems, makes changes quickly, and responds to the customer needs faster.



- **Conventional Marketing channel**

  In conventional marketing systems, producers, whole sellers and retailers are separate entities that provides respective services in the distribution of products. Each is an independent business that seeks to maximize its profits. Sometimes this profit seeking behavior works against the objective of the company. For instance, channel members sometimes start working at the expense of the other members. There are instances of poaching or trying to corner customers by price cutting or offering of incentives that the company never intended.

b) Horizontal Marketing Channel System:

Horizontal marketing system is one in which two or more companies join together to follow a new marketing opportunity.

By working together companies can combine their capital, production capabilities, or marketing resources to accomplish more than what any one company could alone. Companies may join forces with competitors or non-competitors, though horizontal systems are more common among unrelated companies. The arrangement could be temporary or permanent. sometimes a separate company is created for the purpose. For example: sharing of ATMs by different banks or the sharing of towers by mobile phone companies. Coca- cola and Nestle formed a joint venture to market ready-to-drink coffee, and tea worldwide. Apple announced the partnership with star bucks in 2007 which allows customers participating outlets of the coffee chain to wirelessly browse, search, and download music from iTunes music store to the apple devices.

c) **Multi-Channel System**
When companies interact with their customers from a combination of channels, such as kiosks, ATMS, call centers, direct marketing, home shopping networks, catalogues, online interactions, as well as supermarkets and stores, they operate through multiple channel. Companies can build a lasting customer relationship management (CRM) through multiple channels. They must use their multiple channel strategy to achieve synergy among them.

Power of Channel members

Power is defined as an ability of one channel member (A) to get another channel member(B) to do something it otherwise would not have done. Simply put, power is the potential for influence. Power seems to exist when firm(Target of the influence) follows the path that another firm(the influencer) desires.

Members of a distribution channel acquire and exercise power they have by virtue of a well-known brand name, size, or market coverage. This is seen when manufacturers of well known, established brands dictate terms to their distributors. On the other hand, big distributors having wide coverage can exercise power not only on small retailers but also on the manufacturer for better terms of trade.

Different channel members inherit different power within them, some of the power of different channel members is discussed below:

a) **Backend or product power**
This refers to the power that a manufacturer or service provider wields if the brand is very popular or powerful. Manufacturers of a powerful brand, for instance, may force dealers to buy less powerful or profitable lines along with their popular brands. The dealers and retailers have little choice but to carry the brand or risk losing their customers. This power, exercised by manufacturers, is also known as backend power.

b) **Middle or wholesale power**
This refers to the power held by an intermediary by virtue of control over the distribution in a particular area. For instance, a wholesaler who sells a variety of products to a large number of smaller retailers is often able to bargain with manufacturers because of his/her reach and the fact that the small retailers depend on him/ her for quick and cost-effective supplies. Such power may also arise if the wholesaler has his/her own fleet of small vehicles or an army of salesmen servicing markets that cannot be matched by the company.

c) **Front or retailer power**
Large retailers can command major concessions from companies because they can place large orders. Large retail chains can exercise their power and boycott products if they do not like the margins offered. For example, Future Group, which runs Big Bazaar, boycotted Pepsi's Frito Lay products and in 2009 had a skirmish with Kellogg's and it decided to stop stocking the company's products (see case study at the end of this chapter). Such conflicts also highlight the need for better relationships among channel members. Companies have to view their channel partners as business partners. The trouble begins when the

relationship becomes transaction-based, rather than collaborative. Companies thus have to walk the thin line of keeping both the modern and traditional retail happy.

Sources of Channel Conflict

Power is derived from various sources. This can be reward power, where one party is able to give a benefit to another on the basis of performance. Coercive power is used when one party is able to force another on the basis of a threat. Expert and legitimate power implies power that is used by virtue of knowledge or legal right. Finally, referent power occurs when one party is able to gain power through reference of a strong name. These are described as follows.

A) Reward Power

Reward power is the ability to reward a channel member for certain actions. One common exercise of reward power is the awarding of bonus for sales beyond a particular level. For instance, a manufacturer of cold drinks may offer a bonus of a holiday package if a retailer achieves sales of, say, 10,000 cases in a particular month. Retailers then by to achieve that target by giving additional display space or pushing that cold drink during the scheme. Reward power is known to work in situations where there is a latent demand. Small manufacturers offer the reward of better margins if retailers push their products and can thus pose a challenge to big companies. Established brands suffer when a smaller local player offers quick rewards and larger margins to the trade for pushing its products.

B) Coercive Power

Coercive power implies forcing a channel partner to do certain actions. Companies with strong brands often push a slow-selling brand or product along with orders of their main brands. Toothpaste companies, for instance, may make it a condition for distributors that 'for every 10 cases of toothpaste order, you must place an order for 1 case of toothbrushes'. There are many examples of this practice, where a company will not sell a highly profitable brand unless the distributor also buys slower-moving products. On the other hand, a large retailer can exercise coercive power by telling a manufacturer that he/ she will not place a big order unless a further discount is given.

C) Expert power

Expert power is based on the premise that one party has superior knowledge or expertise and may thus influence other members in the chain. Examples of such power abound in the market. When a company offers its franchise to a local player, it is under the express understanding that the company knows its business and is an expert in it. When the company advises its franchisees to buy certain machines, it exercises its expert power. Consultants in construction or IT who advise their clients also exercise expert power. It is their recommendation that will be heeded by the client and by this virtue they use expert power.

D) Legitimate power

When one party has a legitimate right or legal right over the other, it is called legitimate power. For example, when a person listens to his/her boss, it is an example of legitimate power. In the channel management context, when a distributor or wholesaler signs a contract with a company, the provisions in the contract grant legitimate rights to both sides. Through these provisions, a code of conduct is established and violations can be dealt within the provisions of the contract.

E) Referent Power

Referent power comes from the desire of one party to be associated with another because its gets recognized because of the bigger name. A distributor will try to have at least one big brand in his/her portfolio because he/she knows that managers of other products will seek him/her because of that brand. Thus, a distributor for a big company like Unilever will find it easier to get dealership of other products provided it is allowed by the company. Similarly, real estate developers will go out of their way to get a fast food company like McDonalds and a retail chain like Big Bazaar in their shopping malls because they know that other tenants and shoppers will get attracted by the presence of these big brands in this way, malls derive referent power from the big brands. The mall derives referent power from its 'anchor brands'—those brands that define the mall. Market players use referent power in distribution channels: companies with big brands will dictate terms, and dealers of big brands will, in turn, dictate terms to other partners.

It is up to the manager how he/she uses different types of power for his/her company or product. In the real world, power is gained and exercised by channel members. It never happens that all parties start with a level. however, it is important for both the manufacturer and the distributor to use power responsibly -otherwise it results in conflict and a competitor may find it easier to make inroads into the market.

Recent Trends in Marketing Channels

a) Symbiotic Marketing

Symbiotic marketing is “an alliance of resources or programs between two or more independent organization design to increase the market potential of each”. In other words, Symbiotic Marketing can be defined as “Strategic blending of resources by two or more actors, who may be either direct competitors or operate in completely distinct markets to achieve superior market returns not achievable by either party independently”

b) Third party delivery

Third-party delivery is an independent logistics provider that performs any or all of the functions required to get a client’s product to market. • Companies use third-party logistics providers for several reasons. First, since getting the product to market is their main focus, using these providers makes the most sense, as they can often do it more efficiently and at lower cost. Second, outsourcing logistics frees a company to focus more intensely on its core business. Finally, integrated logistics companies understand increasingly complex logistics environments.

c) Multi-channel Marketing

Multichannel marketing refers to the practice of interacting with customers using a combination of indirect and direct communication channels – websites, retail stores, mail order catalogs, direct mail, email, mobile, etc. – and enabling customers to take action in response – preferably to buy your product or service – using the channel of their choice. In the most simplistic terms, multichannel marketing is all about choice of various channel members.

d) Multi-level Marketing

Multi-level marketing is a strategy that some direct sales companies use to encourage their existing distributors to recruit new distributors by paying the existing distributors a percentage of their recruits' sales; the recruits are known as a distributor's "downline." All distributors also make money through direct sales of products to customers. Amway is an example of a well-known direct-sales company that uses multi-level marketing.

e) E-marketing

Very simply put, eMarketing or. electronic marketing refers to the. application of marketing principles and techniques via electronic media and more specifically the Internet. The terms eMarketing, Internet marketing and online marketing, are frequently interchanged, and can often be considered synonymous. Certain advantages of E-marketing are discussed as below:

1. Much better return on investment from than that of traditional marketing
2. E-marketing means reduced marketing campaign cost as the marketing is done through the internet
3. Fast result of the campaign
4. Easy monitoring through the web tracking capabilities help make e marketing highly efficient

f) Direct Marketing

Direct marketing is a form of advertising where organizations communicate directly to customers through a variety of media including cell phone text messaging, email, websites, online adverts, database marketing, fliers, catalog distribution, promotional letters, and targeted television, newspaper, and magazine. One of the great advantages of this type of marketing is that you can reach your specific audience segments with personalized messages. Addressing online direct marketing to a specific audience allows you to set realistic goals and improve your sales on a tight budget.

g) Channel reduction and elimination

Unit 3

Classification of Marketing Channels

Wholesaling

Wholesaling can be defined as all those activities performed by persons or establishments which sell to retailers and other merchants, and /or to industrial, institutional, and commercial users, but do not sell in large amounts to final consumers.

We may define wholesaler as a distributor or middlemen who sells mainly to retailers and institutions, rather than consumers.

Roles of wholesaler

a) Ware housing

A wholesale warehouse is a stocks reservoir from which retailers can draw the required merchandise, considerably reducing the need for their own large inventories to maintain adequate supply. Manufacturers can hold stocks or arrange for storage near retailers, but this is costlier than the specialization of a wholesaler's operation.

b) Financing

The wholesaler provides finance to producers and manufacturers by sending money in advance to them. He also sells goods to the retailer on credit. Thus, at both ends the wholesaler acts as a financier.

c) Provide Information

This function of wholesalers is often neglected. Companies spend fortunes in getting marketing information by conducting surveys and similar activities. Much of the information they require is easily available with the wholesaler, since he is in direct contact with the market. Many companies are able to get customers insights simply by talking to their wholesalers. Wholesalers are able to send to the company various information such as:

- Market demand conditions in different seasons
- Problems encountered in the market by sales personnel
- Product launches and local promotional activities of competitors
- Preference of consumers for particular brands or companies
- Estimated market shares of different products and brands
- Advice on local promotional activities that can be conducted

d) Efficiency and distribution

It is the primary role of wholesaler. Once the goods are received, the wholesaler sells in small quantities to retailers in his area.

e) Risk bearing

Wholesalers hold inventories, thereby reducing the risks for manufacturers and retailers. This includes taking ownership of the products that can deteriote or become obsolete, bearing the costs of thefts, and all the expenses involved in safeguarding the merchandise.

Types of wholesalers

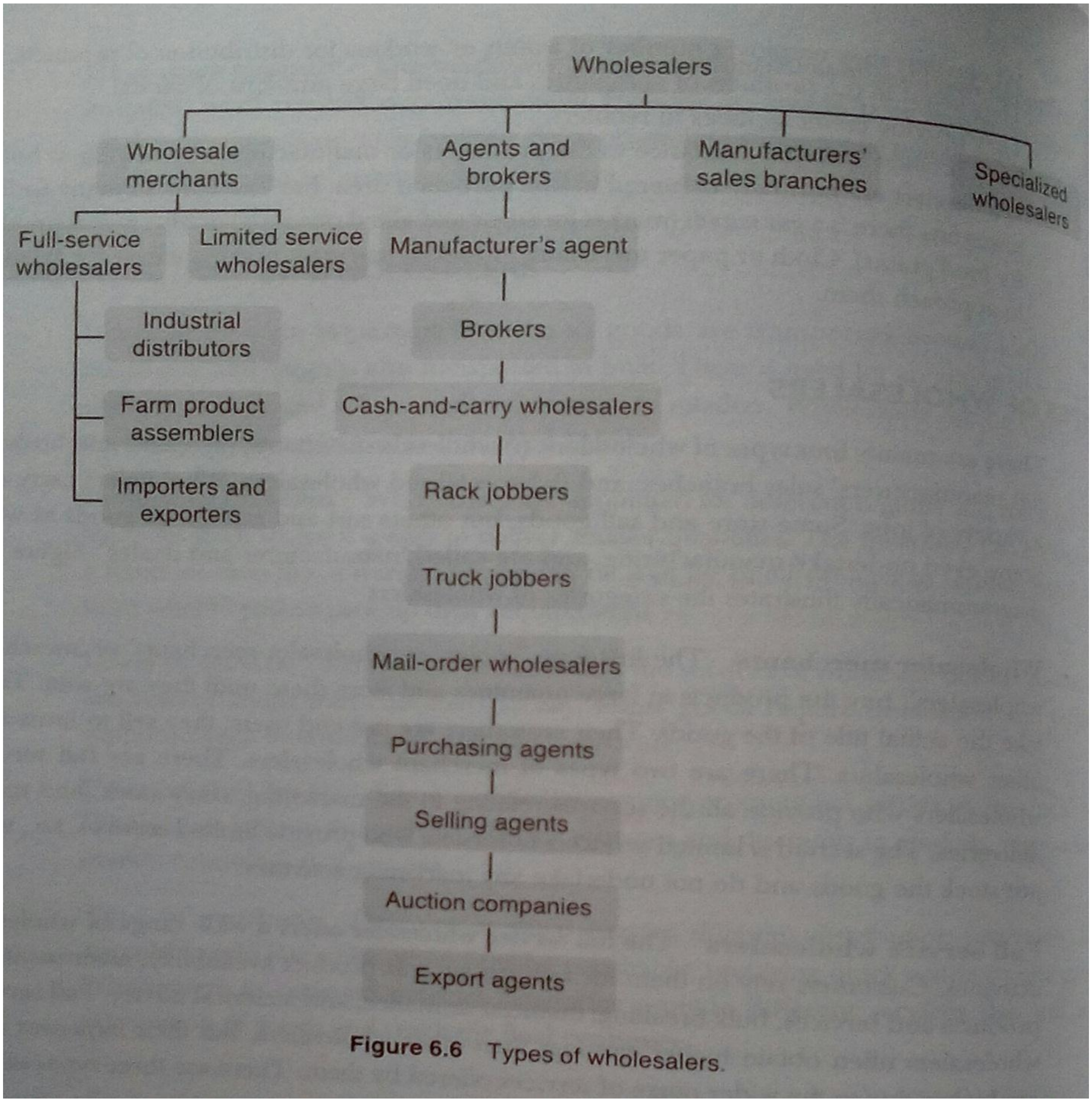


Fig: Types of Wholesalers (Source: Marketing channels: Dinesh Kumar)

A. Wholesaler merchants

The first type, known as 'wholesaler merchants' or 'merchant wholesalers', buy the products in large quantities and store them until they are sold. They take the actual title of the goods. Their customers are not end users; they sell to firms and other wholesalers. There are two types of merchant wholesalers. There are full service wholesalers who provide all the services relating to the marketing, carry stock, and make deliveries. The second is limited service wholesalers who provide limited services, i.e., who just stock the goods and do not undertake any marketing activities.

- **Full Service Wholesalers**

  The full-service wholesaler offers a wide range of wholesale activities. Customers rely on them for services such as product availability, assortments of products and services, bulk-breaking, financial assistance, and technical advice. Full service wholesalers often obtain higher earnings than other wholesalers, but their expenses also are higher due to the wider range of services offered by them. There are three types of full service merchant wholesalers.

  - **Industrial Distributors**

    Industrial distributors trade in a complete line of industrial materials and sell mainly to industrial users such as factories and offices, and sometimes to retailers. They provide storage sales personnel, delivery, order-taking, credit, and repair services.
  - **Farm product assemblers**

    Farm product assemblers gather the output from a large number of small farm producers and provide efficient transportation, storage, packaging, and distribution of agricultural goods. They sometimes sort and process the produce to make it more valuable for retailers. They buy directly from the farmers and operate on a regional basis. Milk cooperatives come under this category.
  - **Importers and Exporters**

    Importers buy in large quantities from foreign sources, and exporters are engaged in selling to foreign markets. They sell to other wholesalers rather than directly to retailers.

- **Limited service wholesalers**

  Limited service wholesalers specialize in a few wholesale activities, while the rest are left for the manufacturer or the retailer. Limited service wholesalers take ownership of the goods, but often do not deliver the merchandise, extend credit, provide marketing information, store inventory, or plan ahead for customers' future needs. The main advantage of this category of wholesalers is the lower cost. In the case of limited service wholesalers, the manufacturer or retailer must take on the responsibility of performing some of the required wholesale functions. Examples of limited service wholesalers are: electrical, hardware, and pharmaceutical merchants who stock goods but do not provide any services.

B. Agents and Brokers

There are many kinds of agents and brokers that operate in markets. They offer limited services and are specialized in their areas. The different types of agents and brokers are described below:

a) Manufacturer’s agents

Manufacturer's agents are firms owned by the companies themselves for distribution but are considered as a separate entity. They distribute the goods made by the manufacturer. These include manufacturer's sale branches and factory (Aides that sell goods both to traders and customers. Manufacturer's agents sometimes sell di, the output of two or more companies whose goods do not compete but complement one another. It is their duty to locate potential buyers and sell to them. They are restricted to a, geographical area.

b) Brokers

Brokers or agents are firms that work independently and do not take the title of the goods They assist in the negotiation process of selling the goods and help in procuring buyers. The broker's powers over prices and payment terms are limited and must seek confirmation from their principals before finalizing the sale. Since they do not take the title of the goods, brokers avoid all risks related to price fluctuations, changes in market demand, and damages. They earn a commission on the total value of the deal, which is usually a small percentage. In some cases, it may be as small as 0.05 percent. Brokers do not provide any service apart from assisting in the sales process.

c) Cash-and-carry wholesalers

Cash-and-carry wholesalers sell primarily to retailers and do not provide credit or delivery services. The services provided by cash-and-carry wholesalers include buying, re-sorting of goods, and maintenance of inventory. Products are displayed and sold on cash basis.

d) Rack jobbers

Rack jobbers arrange with retailers to put up a display and sales counter of their product lines in shops. They specialize in non-food items such as cosmetics and pay a certain percentage of the sales of their products to the retailer. Ownership of the goods remains with the wholesaler until the sale to the final customer is made. Such displays can be seen in supermarkets and large stores.

e) Truck jobbers

Truck jobbers combine sales and delivery functions. They have a limited product line of fast-moving items of a perishable or semi-perishable nature and supply to restaurants, grocery stores, and convenience stores the driver of the truck also performs the tasks of the salesman. Payments are collected and deliveries made, some Limes on a daily basis.

f) Mail order Wholesalers

These wholesalers circulate a catalogue or describe the good on a website. Deals are made on the phone and goods are dispatched on cash-on-delivery (COD) basis.

g) Purchasing agents

Companies appoint resident buyers who collect goods and sent them to the factory. They are responsible for quality; and so, they buy a wide variety of requirements, stock them, and send the goods. They are especially useful when factories are located in remote areas.

h) Selling agents

Selling agents are appointed by a manufacturing company for selling its entire output

i) Auction Companies

Auction companies are the oldest wholesaling establishment, operate traditionally in agricultural output. They provide the staff and the facilities where,, auctions can take place.

j) Export agents

Companies appoint export agents to sell products to companies in different countries. They provide services such as foreign market research, identification of markets and customers, exhibitions and trade fairs, and so on, to help companies export their goods.

C. Manufacturers' sales branches

Certain companies operate through their own offices-- these being operated in cities and towns—by the company's own personnel. These offices collect orders from agents and dealers in their respective areas and send them to the head office, which in turn, sends the goods to the dealers directly. The local offices monitor the dealers directly and also serve to solve any problems that may arise. For example, companies like Reliance Industries Ltd and Maruti Suzuki Ltd, have their offices in towns even though the actual task of selling and delivery is done by their agents.

D. Specialized Wholesalers

Specialized wholesalers deal in specific range of items. They offer more specialized services than general merchandise wholesalers. Specially wholesalers know their customers closely and understand their needs. For example, wholesalers of building materials open their offices near building sites. They stock supplies, timber supplies, and hardware products and are often in a position to offer advice to their customers.

Retailing

Retailing encompasses the business activities involved in selling goods and services to consumers for their personal, family, or household use. It includes every sale to the final consumer.

Role of retailer

a) **Location**
A retailer invests in a location that is most convenient for Customers. Small retailers offer goods where consumers can buy quickly in small lots without the bother of placing advance orders or waiting for supplies.

b) **Display**
The retailer arranges for the latest goods to be displayed in a manner that appeals to customers the most. Sometimes events are arranged around certain products and brands to encourage customer interest in those brands. Retailers are also in a position to arrange point-of-purchase (POP) publicity that educates the customer and entices him to buy. For example, retailers put up posters and cut-outs in their stores highlighting the features of certain products to induce customers to try out these products.

c) **Home delivery**
A retailer transports goods from wholesalers to ultimate consumers. s Some retailers provide a free home delivery service to their customers, thereby creating place-utility.

d) **Regular supplies**
By ensuring uninterrupted and fresh supply of goods, the retailer saves the customers from the bother of buying goods in bulk and storing them and maintains adequate supply of goods so that customers are sure of getting supplied at the time of their need.

e) **Credit Supplies**
Although retailers mostly sell goods for cash, they also supply goods on credit to their regular customers. Small stores score over large supermarkets by virtue of this facility.

f) **Interaction with customers**
A retailer at least the small retailer—acts as a friend and guide to his customers. He is able to recommend products and is at the frontline to receive complaints. The retailer is the best place to study consumer behavior.

g) **Offering choice to customers**
The retailer buys goods from different sources and stocks different varieties of products. In this way, he offers a wide choice to customers. Further, the customers can touch and feel the products and make their purchase decisions.

h) **Availability of goods in micro quantities**

Sometimes retailers offer smaller packs- smaller than those offered by the manufacturer- to individuals who want to purchase less, customers can buy according to their purchasing power and requirements.

Types of Retailer

a) Traditional Retailers

- **Specialty Store**

  Specialty stores are thus called because they specialize in a single product line. Examples of such stores are those specializing in music instruments, furniture, flowers, hobby items, sporting goods, pet supplies, and books. Specialty stores are few in numbers and are able to attract a committed clientele. Stores that carry an even more limited range of products are called super specialty stores. Such stores, though rare in India, do exist. For instance, stores exist for sports shoes only and that sell clothes only for over size people. Their product lines are very narrow but very deep – that is to say, a variety of products are offered within the single product line.

- **Department Store**

  Department stores carry a range of product lines, each organized as a separate department. They carry a wide a range of goods required by the customer and save the buyer the time and bother of going to different shops to buy his daily or monthly needs. Department stores carry products like cosmetics and personal care products, food products, packaged items, and household goods at various price points, arranged as distinct sections under one roof. Larger department stores have a common sales staff. There is a common check-out area, usually at the front of the store. Services such as free home delivery and loyalty schemes make them attractive to customers.

- **Supermarkets**

  Supermarkets are self- service stores that stock a very large variety of food and household merchandise. It is distinguishable from a department store in the sense that it is much larger and carries a wider range of product lines. Supermarkets stock food products such as meat, fruit and vegetables, dairy products, canned and packaged goods, baked goods, household cleaners, toiletries, cosmetics, and so on. They are usually located on a single floor and may have different sections for good like furnishing and apparel. Some supermarkets also sell imported items and wines and alcohol, depending on permissions obtained from local authorities.

  Supermarkets attract customers because of their extremely broad range of goods that are displayed on shelves for ease of buying. They are also able to offer low prices and various schemes and deals. Customers can 'touch and feel' the products without the presence of nosy salesman and hence, offer ease of shopping.

Supermarkets offer cheap products as they are able to achieve economies of scale. They buy in bulk, thus getting discounts and better terms from manufacturers apart from savings in transportation costs.

b) Mass Merchandisers

- **Discount stores**

  These retail outlets offer all goods at discounted prices. An assortment of products such as umbrella, plastic items, cosmetics, crockery, decoration items, etc. is put on sale at fixed prices. Such stores sometimes stock Chinese goods or goods obtained from factories at cheap prices. 99 shops at Basantapur is an example of a discount stores. All the goods sold at footpath of Ason, in front of Kathmandu mall are also the example of discount stores in Nepal.

- **Off price retailers**

  Off-price retailers offer a different approach to discount retailing. As discount houses tried to increase services and offerings in order to upgrade, off-price retailers invaded this low-price, high-volume sector. Off-price retailers purchase at below-wholesale prices and charge less than retail prices. This practice is quite different from that of ordinary discounters, who buy at the market wholesale price and simply accept lower margins by pricing their products below retail costs. Off-price retailers carry a constantly changing collection of overruns, irregulars, and leftover goods and have made their biggest forays in the clothing, footwear, and accessories industries.

- **Super Stores**

  Superstores are very large supermarkets or shops selling household goods and equipment. Superstores are usually built outside city centers away from other shops

  Superstore vs Super market

  A supermarket is mainly food, and will have fresh food areas such as produce, meat, deli, bakery. They may sell non-food items such as health and beauty care, household cleaning, pet food, but the focus is on food. A superstore will potentially have a grocery section of varying size, but it will also have many other non-food areas, and the focus is often on clothing, home decor, and many other areas. Grocery is just one small area of many in a superstore.

- **Warehouse showroom**

  A warehouse store or warehouse supermarket is a food and grocery retailer that operates stores geared toward offering deeper discounted prices than a traditional supermarket. These stores offer a no-frills experience and warehouse shelving stocked well with merchandise intended to move at higher volumes.

- **Catalogue showroom**

  Catalogue showroom usually refers to retail outlets which deal in hard goods like electronics, jewelry, houseware etc. They are located next to or in close proximity to their warehouses.

  The merchandise is not displayed to save costs instead the customers have to browse a catalogue to place order for any specific item. Latter is then fetched from the warehouse and sold to the customer. The price range is low as only a narrow range of goods is displayed. The location of the showrooms is also in low-cost areas.

c) **Non-store Retailing**

- **Direct Marketing**

  Direct marketing is generally a form of advertising where organizations communicate directly to customers through a variety of media including cell phone text messaging, email, websites, online adverts, database marketing, fliers, catalog distribution, promotional letters, and targeted television, newspaper, and magazine advertisements, as well as outdoor advertising. Among practitioners, it is also known as direct response.

- **Vending Machine**

  A Vending machine is an automatic machine that sells food or drink or other items. Vending machine foods include snacks such as potato chips, chocolate bars, and candy. Hot vending machine drinks include coffee, tea, and hot chocolate. Cold vending machine drinks include juice, bottled water, soft drinks. Other merchandise includes newspapers or cigarettes. Vending machines in bathrooms sometimes sell mouthwash, or toothpaste and toothbrushes.

- **Kiosks**

  Kiosks are temporary or permanent structures located in high traffic areas such as busy markets and airports. Kiosks provides convenience goods to the customers who is either in a hurry or who does not have the inclination to visit a store or restaurants. They are owned and operated by Individuals. Sometimes they are mobile while some kiosks operate from fixed structures.

Fig : Kiosks

Agent Middlemen

Manufacturers may use brokers and agents, who do not take title possession of the goods, in marketing their products. Brokers and agents typically perform only a few of the marketing flows, and their main function is to ease buying and selling—that is, to bring buyers and sellers together and negotiate between them. Brokers, most commonly found in the food, real estate, and insurance industries, may represent either a buyer or a seller and are paid by the party who hires them. Brokers often can represent several manufacturers of noncompeting products on a commission basis. They do not carry inventory or assume risk.

Unlike merchant wholesalers, agent middlemen do not take legal ownership of the goods they sell; nor do they generally take physical possession of them.

Types of Agent Middlemen

a) Manufacturer Agent

Manufacturers' agents, who represent two or more manufacturers' complementary lines on a continuous basis, are usually compensated by commission. As a rule, they carry only part of a manufacturer's output, perhaps in areas where the manufacturer cannot maintain full-time salespeople. Many manufacturers' agents are businesses of only a few employees and are most commonly found in the furniture, electric, and apparel industries.

b) Sales Agent

Sales agents are given contractual authority to sell all of a manufacturer's output and generally have considerable autonomy to set prices, terms, and conditions of sale. Sometimes they perform the duties of a manufacturer's marketing department, although they work on a commission basis. Sales agents often provide market feedback and product information to the manufacturers and play an important role in product development. They are found in such product areas as chemicals, metals, and industrial machinery and equipment.

c) Purchase Agent

Purchasing agents, who routinely have long-term relationships with buyers, typically receive, inspect, store, and ship goods to their buyers.

d) Commission Houses

A commission house provides services for buying and selling all kinds of assets, including stocks, mutual funds and bonds — and charges fees for doing so.

Unlike self-directed brokerages that allow customers to place trades on their own and pay nominal fees, the commissions charged by these full-service providers are often steep and unnecessary.

UNIT 4

MANAGING MARKETING CHANNEL

Channel conflict and co-ordination

Channel conflict is behavior of channel member that is in opposition to its channel counterpart. It is opponent centered and direct, in which the goal or object sought is controlled by the counterpart. Channel conflict occurs when one member of a channel views its upstream or downstream partner as an adversary, as an opponent.

Conflict in channels arise due to many reasons. Chief among them is the threat of decreased earnings. If sales or earning potential decreases, dealers and retailers are likely to revolt.

Types of channel conflict

As sales of a product declines, channel partners will demand more inputs from the companies. On the other hand, when sales are strong, companies begin to demand more from their dealers. There are three kinds of channel conflict that usually exists in channel, which are described as follows:

a) Supply-driven Conflict

supply-driven conflict will occur when companies demand more from their dealers, the most common conflict is with regard to the size of the orders placed by him/her and the payment terms. Further, companies also demand that all retail outlets in one's territory be covered. Display in retail stores and local publicity could also be a bone of contention

- **Adding more channels**

  Suppliers are likely to drive conflicts by adding more channels, like an Internet channel or a different structure to supply to supermarkets. Dealers who have invested in the brand will perceive that the company is reaping the benefits of the investments made by them. Rather than alienate existing dealers, companies need to assess whether adding channels is really necessary. For instance, Levi's decided that it will not sell merchandise on the Internet. The Levi's site only gives information about products and advises customers to head for 'the nearest Levies store'.

- **Adding dealers**

  Severe conflicts occur when a company wants to add an additional dealer in a town because of increasing markets. A company is willing to earn the existing distributor's wrath if it feels that the market has expanded, which justifies two or more dealers Car dealers, for instance, provide after-sales service to vehicles, but when the existing dealer is not able to service all the vehicles in a town, the company will appoint a new franchisee the solution is to have contracts with dealers that give the freedom to the company to open a new franchise once a. particular limit of sales is crossed.

- **Expecting more inputs from the existing dealer**
  As a response to changing market conditions, companies begin to expect more marketing activities from the dealer, A garment manufacturer, for instance, may expect the local dealer to improve in-store visibility of manufacturer, its brand or to organize local events. Sales schemes that require customer participation also require supervision by the local dealer. If he/she has not been doing these activities traditionally, he/she may find it difficult to satisfy the company.

- **Returns**
  Severe conflict also results when customers return goods, A$ -focus shifts to the customer, companies want to appear 'customer -friendly by having generous returns policies. Retailers and retail chains take back returns, which are then returned to the dealer for compensation. A company expects a retailer to take back the damaged toothpaste tube, for example, or a dress that the customer found too short. Expensive electronic products also see returns taking place. Every return results in loss for the dealer, as he/she has to bear the cost of sending goods back and getting credit for them. Very often companies will impose limits of returns that they will take back. If a dealer is stuck with sales returns in excess of that limit- as could happen during the holiday season- he/she will demand compensation from the company.

b) Channel driven Conflict

Conflict Sometimes channel members protest against the policies of the company. Either a large dealer servicing a large market will demand better terms from the company, or dealers of a particular area may collectively ask for change in marketing policies. Such conflicts are. channel-driven and the company must learn to respond to them. A common complaint that is heard is, 'We have worked hard to establish the brand and develop business, and no they want to ditch us'.

c) Conflict caused by Evolving Markets

Companies have to respond to market challenges or make changes in marketing strategies to meet the growing competition. Some of these changes may not be to the liking of the channel partners—who may then collectively agree not to cooperate with the company Common conflicts result when companies add a new channel. But other such conflicts are common, especially when they impact on the earning capacity of channel partners.

- **Rationalization of the distribution strategy**
  When companies rationalize their distribution channels as a result of changed market conditions or technology, it will lead to conflict with existing members, who may be asked to either invest in technology or hire more people. Both of these will be resisted by the channel members.

- **Adding new channels Channel**
  conflict occurs if the company adds another type of distribution channel that is perceived by the existing channels to be chasing after the same customers with the same brand. Direct selling and online retail, which big brands are adding to their existing channels, could be seen as threats to the existing partners. Channel conflicts can paralyze a company and stall market growth. However, the company must differentiate between real channel conflict and healthy channel competition the challenge faced by companies is thus to manage the perceived conflict so that it dots, not escalate.

Beside the above discussed conflict types, channel conflict can also be discussed in three main types such as:

a) Horizontal conflict:
Conflicts between members at same level of the channel, e.g. retailers and retailers, ae called horizontal conflicts

b) Vertical Conflicts
Conflicts between members at the different levels of the channel, e.g., manufacturer and retailer, is known as vertical conflict.

c) Inter type conflict
Conflict between different types of channel members at the same level distribution channel is called inter types conflict. Two or more channels compete in selling to the same market. For example, one of the retailers at Baneswor is selling is selling groceries and other is selling readymade clothes. But, if groceries start to sell the readymade clothes then there will be conflict among them.

Resolving Channel Conflict

All parties must try to resolve conflicts, since a breakup with partners is usually not an option. Companies must work hard to establish close relationships with channel partners and nurture these relationships, which are very useful in hard times.

a) **Problem solving**
Various types of conflicts can emerge in distribution channel. They should be solved as soon as possible. Problem solving method is one of many methods. According to this method, all the channel members sit together, interact and find a common solution of the problem. Channel deader or any other member can also do such work.

b) **Goal Modification**
Channel conflict can also be solved by modifying goal. Under this method all the channel members sit together, scrutinize the causes of the conflict and new goal is formed. Such goal should be accepted by all channel members.

c) **Persuasion**
Channel conflict can be solved by clearly interpreting subject matter or persuading the channel members. Under this, channel leader persuades and calls all channel

members to work for the interest of group members. In this method, the channel leader uses his power to persuade or convince the members and solve the conflict.

d) **Bargaining**
In this bargaining method, all the channel members sit together, discuss the responsible causes for the conflict and agree on a new contract. Neutral member plays an important role in facilitating new agreement. Such agreement should be accepted by all the channel members, channel conflict is automatically solved. But, if the channel conflict is to be solved promptly, this method is not suitable.

e) **Diplomacy**
Conflict among channel members should be minimized r solved. Diplomatic behavior of management helps it certain level or solving conflict. When the conflict appears, the management should notice or information to all the channel members that it will be properly solved finding out the responsible causes. Because of mannered conduct equal behavior, evidential logics of the management channel members feel satisfied by which the conflict can be slowly tapered down.

f) **Improvement in communication**
Distribution channel also needs different information and notices. So. Information should be clear, meaningful, and simple. Due to weak information system, conflicts arise in channel. such conflict can be tapered down through improvement in information system. But improvement in communication should be on both sides. Otherwise information becomes meaningless.

Channel Information System

CIS is the orderly organized flow of pertinent relevant operational data both internally and between channel members, for use as a basis of decision making in specified responsibility areas of channel management

Objective of CIS

a) To provide **timely information** for decision making
b) **Operational data** is the bases for planning channel and evaluating the performance of the channel
c) **Operational planning** includes forecasting and providing the information to achieve the forecast
d) **Evaluation** is concerned with reviewing the results achieved and to check whether the performance is satisfactory or not

Elements of Channel information system

a) Transaction processing system
A Transaction Processing System (TPS) is a type of information system that collects, stores, modifies and retrieves the data transactions of an enterprise. A transaction processing system is a computerized system that performs and records the daily routine

transactions necessary to conduct business. Examples are sales order entry, hotel reservation systems, payroll, employee record keeping, and shipping.

b) **Knowledge Information system**
Knowledge Management systems are the set of processes developed in an organization to create, gather, store, maintain, and disseminate the firm's knowledge. Knowledge work systems help create and integrate new knowledge within the organization. Knowledge management systems codify knowledge and experience, make the collected knowledge and experience available when and where it is needed, and provide links to external sources of knowledge.

c) **Management information system**
Management information systems (MIS) serve the management level of the organization, providing managers with reports and often online access to the organization's current performance and historical records. Typically, MIS are oriented almost exclusively to internal, not environmental or external, events. MIS primarily serve the functions of planning, controlling, and decision making at the management level. Generally, they depend on underlying transaction processing systems for their data. MIS generally provide answers to routine questions that have been specified in advance and have a predefined procedure for answering them.

d) **Executive support system**

Senior managers use executive support systems (ESS) to help them make decisions. ESS serve the strategic level of the organization. They address nonroutine decisions requiring judgment, evaluation, and insight because there is no agreed-on procedure for arriving at a solution. ESS are designed to incorporate data about external events, such as new tax laws or competitors, but they also draw summarized information from internal MIS and DSS. They filter, compress, and track critical data, displaying the data of greatest importance to senior managers. For example, the CEO of Leiner Health Products, the largest manufacturer of private-label vitamins and supplements in the United States, has an ESS that provides on his desktop a minute-to-minute view of the firm's financial performance as measured by working capital, accounts receivable, accounts payable, cash flow, and inventory.
Questions ESS assist in answering include the following: In what business should we be? What are the competitors doing? What new acquisitions would protect us from cyclical business swings? Which units should we sell to raise cash for acquisitions?

Designing a channel information system

Step: 1 **Develop objectives** for the channel information system
Step: 2 Conduct a **channel flow** (flow of data like product name, functions) analysis
Step: 3 Conduct an **information need analysis**
Step: 4 Identification of **information sources**
Step: 5 Analyze **hardware and software** options

Step: 6 Develop **cost** analysis
Step: 7 **Finalize** the system based on the approved cost.

UNIT 5

Channel planning and design

Meaning of channel planning and design

A channel strategy is a vendor's plan for moving a product or a service through the chain of commerce to the end customer.

Channel design refers to those decisions involving the development of new marketing channels where none had existed before or to the modification of existing channels.

Channel design is presented as a decision faced by the marketer, and it includes either setting up channels from scratch or modifying existing channels. This is sometimes referred to as reengineering the channel and in practice is more common than setting up
channels from scratch.

The term design implies that the marketer is consciously and actively allocating the distribution tasks to develop an efficient channel, and the term selection means the actual
selection of channel members.

Finally, channel design has a strategic connotation, as it will be used as a strategic tool for gaining a differential advantage.

Process of channel planning

a) **Complete understanding of existing channel conditions and challenges**
To determine the process of channel planning firstly understanding the present condition of existing channel is necessary. There are different types of distribution channel. Producers should firstly understand the nature of product, their Current standing in the market, the behavior of the consumers. Based on this factor, the channel can be either big or small. This is the very reason why the complete understanding of channel is necessary before starting the channel planning process.

b) **Conduct competitor analysis**
During the planning of distribution process, the planner should give attention to the competitor. The nature of competitor and their strategies should be developed. Understanding the place competitor use to distribute the product, types of distribution channel used by the product, services provided by the competitor. Along with this the competitor's depth in distribution, the relation between the distributors should also be considered. The strategies used by the competitors can be reference for developing a distribution plan.

c) Assess opportunities in existing channels
d) Develop a near term plan of attack
e) Conduct gap analysis
f) Identify and develop strategic options

g) Conduct qualitative and quantitative end- user analysis
h) Develop an ideal channel system

Types of channel design

a) **Vertical channel design**
Vertical channel design is one in which the members of a distribution channel-producers, whole sellers, and retailers- work together as a unified group in order to meet the consumer needs. Vertical marketing system help define areas of channel members so that such overlaps between various channel members does not occur.

b) **Horizontal channel design**
Horizontal marketing system is one in which two or more companies join together to follow a new marketing opportunity.
By working together companies can combine their capital, production capabilities, or marketing resources to accomplish more than what any one company could alone.

c) **Hybrid channel**
When companies interact with their customers from a combination of channels, such as kiosks, ATMS, call centers, direct marketing, home shopping networks, catalogues, online interactions, as well as supermarkets and stores, they operate through multiple channel. Companies can build a lasting customer relationship management (CRM) through multiple channels. They must use their multiple channel strategy to achieve synergy among them.

Factors in channel designing

a) **Efficiency**
Efficiency is the (often measurable) ability to avoid wasting materials, energy, efforts, money, and time in doing something or in producing a desired result. Channel should be designed in such a way that it utilizes the optimum resources.
The standard definition of input process output applies here also. The major is the effort required to achieve a desired service level. The inputs could relate to the number of people involved. The inventory support, the financial implications like credit.

b) **Effectiveness**
Effectiveness is the degree to which something is successful in producing a desired result. The designed channel should produce the desired result for all the channel member, else its ineffective.
This is the analysis of how will the channel system meets its objectives. If one of the objectives of this channel network is to achieve hundred percent on time, in full deliveries, the number of the times this is achieved over the total number of deliveries can be measured and would indicate the effectiveness of the system. for an existing system this data is readily available for a new channel design this can be can only be estimated.

c) Capacity

Capacity is the maximum amount that something can contain. The bigger the capacity of the channel members more beneficial to the organization.

The purpose of this factor is obvious. If the channel has been designed for a current volume of business handling a specific number of customers, it should still be effective when, example, the volume doubles and the number of customers goes up by another 50% similarly when the demand for the company product suddenly goes off at the end of the month or during a festive season, the channel system Would Still work well. The system should have the capacity to tackle short term stocks and also manage long term growth equally effectively.

d) Agility

Agility is the ability to move quickly and easily. All the channel members should be as flexible as possible to adapt according to the situation.

This is the ability to handle changing demand patterns new customers new products or pack sizes. For example, C&FA is expected to handle very high-volume changes at the end of each month and should be prepared to handle this rush. A pharma company or a high technology company keep introducing innovative products often and would expect the channel partners to take it in their stride and continue to first performance on service levels.

e) Consistency

Consistent is the consistent behavior or treatment. All the channel members should perform consistently to achieve the organizational goals.

The channel network should deliver the same level of service today after day all month after month without fail. This keeps the customer satisfaction labels at a high level and will not allow customers to stray and hence is an important factor in the working of the channel network.

f) Reliability

Reliability refers to consistently good in quality or performance who are able to be trusted.

This is a measure of the commitment to the performance of obligations and this certainty with which the commitment is met. This sector allows the company to make promises on delivery to customers which it knows will be met by the channel system. This factor gives the company confidence in the system delivering as per promises. Many Indians companies have realized the seriousness of Reliability in the context of Exports.

g) Integrity

Integrity is the quality of being honest and having strong moral principles. Integrity is most for the well-being of all channel members in the marketing channel.

A channel system may have all the qualities described above but it still has to do business in a fair and broad manner. At no stage is it expected to indulge in any practices which may have the slightest nature of the irregularity. Any such actions can reflect badly on the organization for which the channel partner is working. For example, successful companies would not want their distributors getting business even from major accounts by any means other than prescribed honest methods. They also insist that the records and registers maintained by the channel partners on account of doing business with the company to always reflect the truth and being open to scrutiny from any government agency at any time.

Setting channel policies and strategies

I. Market coverage

Sales policy of any company whether selling FMCG, industrial products or services dictates that all market, with potential for doing business need to be serviced. Resource limitations prevent the same level of service for all markets. The sales manager prioritizes' his markets and devotes maximum channel power in the potential markets. For industrial products, the customers are normally located in clusters and it is easier to decide the marker coverage for the dealers. In the case of consumer products and pharmaceutical products. the markets are. spread widely including a vast rural market. For this kind of products. the frequency of market coverage is decided based on the importance or potential of the market and the prevalent competition. In either case. what competition does, decides the kind of market coverage most of the times. The market coverage plan reflected in the best plan of the channel partner. Companies make sure that there is no overlap of markets between their contracted channel members like distributors, stockiest, dealers or agents (as otherwise, this could be the primary reason for channel conflict). Independent wholesalers and retailers normally service the market in which they are located. Except for institutions in the market they serve, their entire sales happen from their own outlets—their customer come to them for purchases.

The primary objective of distribution strategy is to provide sufficiently broad, gap-free market coverage, i.e. being made available in enough outlets so that customers have convenient access for purchases. For some products, effective coverage is achieved with exclusive or selective distribution through relatively few specialized stores; other products (like Coke) require intensive distribution with a dense, often heterogeneous population of outlets. The appropriate level of market coverage is situation-specific, depending on product characteristics, and on customers' buying behavior.

For example, exclusive distribution may be appropriate for specialty goods (like expensive, high fashion watches) that are sought out by customers, that may require in-store selling, and that may even accrue an "image halo" from the apparent exclusivity. But, sales of frequently bought, commodity-like products (sometimes called convenience goods) are often driven by proximate availability, so intensive distribution is usually appropriate and sometimes mandatory. Many products follow a systematic progression over their life cycle, moving from more exclusive to more intensive distribution as the product matures.

II. Customer coverage

After deciding the list of market to be served, it is necessary to decide the customers (Wholesalers, Retailers, and institutions- those who buy the product for their own consumption and not for resale) who need calling upon and the frequency callage. Even here based on the experience the customers need to be classified. The basic rule for coverage includes:

- Every customer needs to be visited at least once in the month
- Every call on a customer need to be made productive
- A customer cannot be visited by two distributors for the same product.
- The owner of the distributor film also has to distribute the customers in a while

III. Pricing

This is probably the most critical issue when dealing with the channel partners. whether they are on contract or independent like all Businessman they want prices which are favorable to give them the highest margin, there is however a limit to the margins which can be provided as every such is effective in price for the product to be paid by the consumer most of the times what competition does decide the prices that can operate in the market

The pricing mechanism for a product consumer product works like this:

- The end consumer price is decided best of the company costs margins expected and what the competition is doing for similar products this is the MRP maximum retail price printed on the pack
- The permitted retail margins are known and hence the price to the retailer can be worked out from the MRP
- The retailer price also considers the margin to the distributor. If this permitted margin is deducted the price to the distributor can be worked out. the company will sell the product to the distributor at this price and expects him to mark up the price to the retailer so that he can earn his margin. As mentioned earlier the FMCG companies permit an ROI of about 30% for their distributors on their investment net of all expenses.

Prices in the market with independent wholesalers and retailers also get affected by the great promotions run by the companies. In the case of Industrial Products, However, prices are negotiated and vary between customers or even channel partners. Even for consumer durables, discounts which companies operate can vary between dealers and so can the end consumer prices which may get influenced by competition.

IV. Product lines

The channel members in the market, independent wholesalers and retailers, decide on their own as to which product lines they want to promote. However, for contracted channel members like distributors and C & FA's, there is an unwritten rule that they will not work with competitive products once they have signed with a company for its product. If the company has different categories of product like HUL - beverages and food products, soaps, detergent and personal products an ice creams, they would prefer to have different channel partners for each setup products. If times, it is not feasible to handle some of these products we get the - for example, detergent product and branded wheat flour. some products like ice creams need special cold storage and handling facilities and hence need a different channel.

Rules in handling product lines through channels:

- Complementary product lines through the same channel
- All similar customers serviced through the same type of channel. In pharmaceutical for example, different channels may be used to cover doctors, hospitals and chemist.
- Products requiring special handling arrangements like gold chains to be distributed by channels capable of this.
- Separate channels may be used for special customers like Modern Store formats or institutional business.

A product line is a group of related products under a single brand sold by the same company. Companies sell multiple product lines under their various brands. Companies often expand their offerings by adding to existing product lines, because consumers are more likely to purchase products from brands with which they are already familiar.

V. Selection of channel members

Companies have no choice in the use of channels already in the market like wholesalers, retailers, chemists, transporters, warehouse leasing companies, spare parts Dealers for all equipment, hotels, restaurants. The question of selection arises depending on the intensity of distribution and in case companies Want to set up your own distribution network of C&FA's and distributors.

The selection process consists of three basic steps:

(1) finding prospective channel members.

(2) applying selection criteria to determine whether these
members are suitable.

(3) securing prospective members for the channel.

Each firm must develop its own list of criteria for channel members for its particular
objectives and allow for flexibility for changes in policies and objectives. An important point to note is that channel members do not always “stand in line” to be selected by producers and manufacturers.

VI. Termination of channel partners

Termination of a contracted channel partner is the most painful part of doing business with other parties. It is resorted only when the partner is unable to meet the objectives of the company or has been caught in this honest business practices.

Both sides discuss and decide that the relationship cannot continue. Both parties try and amicably settle the amounts due to each other as well as the statutory obligation to be completed. It has been mentioned earlier that determination is normally handled orally by the sales people.

VII. Ownership of the channel

Ownership does not just mean the investment in the business, it includes taking responsibility for developing the business of the channel principle who has contracted a channel member to work for it. It considers all the statutory obligations like abiding by various acts, sales tax implications and so on.

Most of these obligations are specifically covered in a contract. However, there are unwritten rules of behavior come into force by tradition and convention, which are also expected to be followed.

VIII. Legal constraints

Various rules and regulations of the existing country should be taken into consideration while setting channel policies and strategies so that both the parties in the distribution does not have any issue later.

UNIT 6

SUPPLY CHAIN MANAGEMENT

Meaning and flows in supply chain system

Supply chain management is a set of synchronized decision and activities utilized to efficient and integrate supplier, manufacturer, warehouse, transportation, retailers and customers so that the right product or service is distributed at right quantity, at right time. The objective of SCM (Supply chain management hereafter) is to achieve sustainable, competitive advantage.

Producing a product or service and making it available to buyer's requirement building relationship not just with customers but also with key suppliers and resellers in the company supply chain.

The supply chain consists of "**Upstream**" and "**Downstream**" partners.

a) Upstream

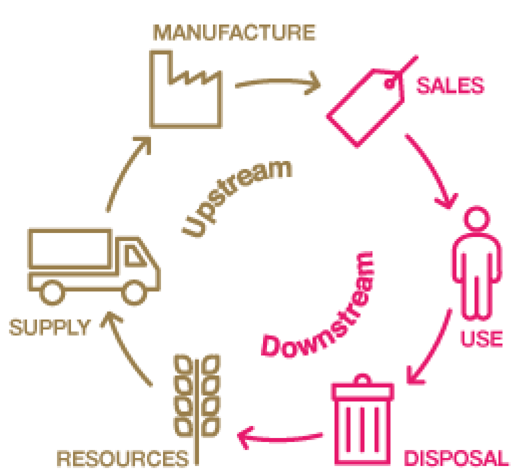
The company with a set of firms that supply the raw material components, parts, information, finance and expertise needed to create a product or service.

Upstream Supply chain usually deal with suppliers, purchases and production lines. Companies, regardless of their sizes and business sectors, all have to rely on suppliers. It can be related to purchasing raw materials, transport services, office equipment or fully finished products. Production can occur or not depending on the company's business activity.

b) Downstream

Marketing channel partners such as wholesalers and retailers which plays a vital connection between firm and its customers.

Downstream Supply Chain, in another hand, covers the whole selling segment including negotiation, after-sales and recycling. These are standards definitions. Some businesses tend to include more services and more specifications in each category to fulfill their needs and differentiate themselves in the market.



Flows in supply chain system

Supply Chain is the management of flows. There are Five major flows in any supply chain: product flow, financial flow, information flow, value flow & risk flow.

The product flow includes the movement of goods from a supplier to a customer, as well as any customer returns or service needs. The financial flow consists of credit terms, payment schedules, and consignment and title ownership arrangements. The information flow involves product fact sheet, transmitting orders, schedules, and updating the status of delivery.

a) Product Flow

Product Flow includes movement of goods from supplier to consumer (internal as well as external), as well as dealing with customer service needs such as input materials or consumables or services like housekeeping. Product flow also involves returns / rejections (Reverse Flow).

Product moves typically from Supplier to Customer. It could be through various warehouses among distributors, dealers and retailers. Challenge here is to ensure that material flows quickly without halting as inventory in various points in the chain. Faster it moves, better it is for the company as it reduces cash cycle. For repairs, exchange, at end of life

material can also flow from Customer to Supplier. Finally, finished goods flow from Customer to their Customer through various agencies. 3PL in the process may be there in the picture. Not to forget here, internal flow within the Customer company.

In the supply chain the goods and services generally flow downstream (forward) from the source or point of origin to consumer or point of consumption. There is also a backward (or upstream) flow of materials, mainly associated with product returns.

b) Money/ Finance flow

Based on invoice raised by supplier, Customer does verification for correctness. If that is correct, money will flow from Customer to Supplier. There could also be flow of money from Supplier to Customer as debit notes. For an efficient and effective supply chain, it is important that all three flows are managed properly with least efforts. For supply chain manager, it is tough task to decide which Information is important for the right decision and he or she would prefer to have visibility of all flows by click of a button. Chasing for Information e.g. level of Inventory ready for dispatch is a non-value-added activity. In this context, Purchasers will become some time chasers.

c) Information flow

Supply chain management involves a great deal of diverse information–bills of materials, product data, descriptions and pricing, inventory levels, customer and order information, delivery scheduling, supplier and distributor information, delivery status, commercial documents, title of goods, current cash flow and financial information etc.–and it can require a lot of communication and coordination with suppliers, transportation vendors, subcontractors and other parties. Information flows in the supply chain are bidirectional.

Faster and better information flow enhances Supply Chain effectiveness and Information Technology (IT) greatly transformed the performance.

Request for Quotation, Purchase order, Monthly schedules, Engineering Change Requests, Quality complaints, Reports on supplier performance flows from Customer side to Supplier. From supplier side to Customer, it would be presentation of company, offer, confirmation of purchase order, reports on action taken on deviation, Dispatch details, Report on Inventory, Invoices etc.

If supply chain has to be successful, constant interaction has to happen between supplier and Customer. In many cases, other partners like distributors, dealers, retailers, logistic service providers are involved in the information network. Further to this, various departments at Supplier and Customers are in the Information loop. Internal information flow within the Customer for in-house manufacture is separate.

Other than these three important flows, two more flows can be discussed.

d) The value flow

A supply chain has a series of value creating processes spanning over entire chain in order to provide added value to the end consumer. At each stage there are physical flows relating to production, distribution; while at each stage, there is some addition of value to the products or services. Even at retailer stage though the product doesn't get transformed or altered, he is providing value added services like making the product available at convenient place in small lots.

e) Flow of Risk

Risks in supply chain are due to various uncertain elements broadly covered under demand, supply, price, lead time, etc. Supply chain risk is a potential occurrence of an incident or failure to seize opportunities of supplying the customer in which its outcomes result in financial loss for the whole supply chain. Risks therefore can appear as any kind of disruptions, price volatility, and poor perceived quality of the product or service, process / internal quality failures, deficiency of physical infrastructure, natural disaster or any event damaging the reputation of the firm. Risk factors also include cash flow constraints, inventory financing and delayed cash payment. Risks can be external or internal and move either way with product or financial or information or value flow.

Role of purchasing in Supply chain

The major objective of any business is to create value for the owners. Many managers recognize that this can be accomplished more successfully by focusing on "serving the customer" or "providing a service to the customer." This reflects the realization that if they do not serve the customer effectively by meeting some otherwise unfulfilled need, the firm will cease to exist. This is not a change in the marketing concept, but a better implementation of the concept. Traditionally, purchasing has been separated from the firm's final customers, or end users. However, the receipt of high-quality, reliable goods and services on a timely basis at a reasonable cost often directly affects customer satisfaction. An organization cannot provide its ultimate customers with better quality goods and services than it receives from its suppliers. If a supplier is late with a delivery or has quality problems, the quality and availability of the product or service to the customer will be affected unless the firm carries higher inventory. In such cases, the supplier increases the total cost of the product or service. It is important that purchasers understand the needs of their organization's customers. This understanding will allow purchasing to make the "right" decisions to meet the organization's needs. The skills required and tasks performed by purchasing are very similar for buyers in the retail, manufacturing, government, and service sectors

Some of the roles of purchasing in Supply chain management is discussed below

a) **Minimizes the transportation cost**
   Through prior purchase of goods, they can be stored by purchasing once in bulk which can reduce the transportation cost generated by frequent purchase of goods.

b) **New Product Development**
   Purchase of raw material is the key component for development of new products in the market.

c) **Availability of Raw material**
   Purchase of goods makes sure that raw material is available in optimum amount during the product process of the product.

d) **No scarcity**
   Purchase of goods ensures regular flow of goods to the manufacturer which reduces the risk of scarcity of raw material in the production process.

e) **Have profit**
f) **Minimize response time of customers**
g) **Decrease inventory cost**

Value chain analysis in supply system

A value chain is a set of activities that a firm operating in a specific industry performed in order to deliver a valuable product or service for the market. It is a set of activities that an organization carries out to create value for its customers. The concept comes from business management and was first described and popularized by Michael Porter in his 1985 best-seller, Competitive Advantage: Creating and Sustaining Superior Performance.

Value chain is a set of interrelated activities a company uses to create a competitive advantage. A value chain is a linked set of value creating activities from sourcing of raw material, from suppliers to manufacturer to producing to marketing and making at available to the end consumers.

Value creating activities are those activities within the organization which directly or indirectly influences the total customer value and total customer cost.

In other words, activities which helps to rise the benefits and reduce the cost are called value creating activities. Value chain influences primary operation, logistics, sales and marketing services, supporting activities from procurement, technology development, human resource management, firm's infrastructure to delivering value to customers which is profound by Michael porter.

Porter distinguished primary activities and supporting activities, Primary activities are directly concerned with creating or delivering of products and services. They can be discussed as below:

Fig: Value chain analysis by Philip porter

A) Primary activities

Primary activities relate directly to the physical creation, sale, maintenance and support of a product or service. Primary activities include:

i. Inbound logistics

These are all the processes related to receiving, storing, and distributing inputs internally. Supplier relationships are a key factor in creating value here.

ii. Production and operation

These are the transformation activities that change inputs into outputs that are sold to customers. Here, your operational systems create value.

iii. **Outbound Logistics**

These activities deliver your product or service to your customer. These are things like collection, storage, and distribution systems, and they may be internal or external to your organization.

iv. **Marketing and sales**

These are the processes you use to persuade clients to purchase from you instead of your competitors. The benefits you offer, and how well you communicate them, are sources of value here.

v. **Service**

These are the activities related to maintaining the value of your product or service to your customers, once it's been purchased.

B) Supporting activities

These activities support the primary functions above. In our diagram, the dotted lines show that each support, or secondary, activity can play a role in each primary activity. For example, procurement supports operations with certain activities, but it also supports marketing and sales with other activities.

i. **Procurement/ Purchasing**

This is what the organization does to get the resources it needs to operate. This includes finding vendors and negotiating best prices.

ii. **Human resource management**

This is how well a company recruits, hires, trains, motivates, rewards, and retains its workers. People are a significant source of value, so businesses can create a clear advantage with good HR practices.

iii. **Technological development**

These activities relate to managing and processing information, as well as protecting a company's knowledge base. Minimizing information technology costs, staying current with technological advances, and maintaining technical excellence are sources of value creation.

iv. **Infrastructure**

These are a company's support systems, and the functions that allow it to maintain daily operations. Accounting, legal, administrative, and general management are examples of necessary infrastructure that businesses can use to their advantage.

Each of these activities are linked to support activities which helps to improve their efficiency and effectiveness.

Essentials in supply chain management which may bring competitive advantage

a) **Efficient consumer response**
"ECR (Efficient Consumer Response)" is a strategy to increase the level of services to consumers through close cooperation among retailers, wholesalers, and manufacturers. By aiming to improve the efficiency of a supply chain as a whole beyond the wall of retailers, wholesalers, and manufacturers, they can consequently gain larger profits than each of them pursuing their own business goals. Companies who compose the supply chain can reduce the opportunity loss, inventory level, and entire cost, as well as increase monetary profitability by sharing the purpose of "customer satisfaction".

b) **Category management**
Managing categories groups of products which are complementary from the consumer viewpoint of products max the task of logistics relatively easier. Even while calling off products based on the merchandisers negotiations logistics can handle suppliers more efficiently. Coordination between retailers and their vendors has become better.
Category management is an approach to the organization of purchasing within a business organization. Applying category management to purchasing activity benefits organisations by providing an approach to reduce the cost of buying goods and services, reduce risk in the supply chain, increase overall value from the supply base and gain access to more innovation from suppliers. It is a strategic approach which focuses on the vast majority of organisational spend. If applied effectively throughout an entire organisations, the results can be significantly greater than traditional transactional based purchasing negotiations, however the discipline of category management is sorely misunderstood

c) **Continuous replenishment**
Replenishment is the movement of inventory from upstream -- or reserve -- product storage locations to downstream -- or primary – storage, picking and shipment locations. It’s a supply chain strategy in which frequent replenishment takes place from the supplier to the retailer or distributor in order to maintain better flow in supply chain and minimize bullwhip effect.
The principle used to replace stocks on the retail shelves based on the objective knowledge of consumer off takes. Logistics help in the filling of the retail shelves based on updated Marketing Information.

d) **Quick response logistics**
Here the consumer decides what he wants when and where. The logistics system has to respond fast to the needs highlighted. This is a good example of a full system as the action happens based on consumer requirements. In many cases the need may be based on a trigger impulse but still has to be met fast. Point of sale data is collected and analyzed to keep manufacturing flexible to meet the demand.

e) Handling functional and innovative products

Functional products are products that people buy in wide range of retail outlets, and those products have more stable and predictable demand, as well as long life cycles. For example, most of kitchen utensil can be classified as functional products, because it is relatively easier for a kitchen utensil firm to predict people' total demand and the demand will not be fluctuated. Physically Efficient Process is a more preferable supply chain type for functional products, because it can supply predictable demand efficiently at the lowest possible cost Moreover, since functional products enjoys low forecasting errors, managers can freeze the production schedule and employ IT system, such as manufacturing-resource-planning software, to orchestrate the entire supply chain to minimize inventory and maximize production efficiency.

In contrast**, innovative products** have more fluctuated and unpredictable demand, and they have much shorter life cycle. Due to their unpredictable demand nature, which leads to less competition, innovative products are possible to create high profit margins. For instance, when iPad first debut, no any similar product existed in the market. That is, if people want this innovative product, Apple is the only place they can get it. Apple therefore can enjoy a great profit in such less competition market. However, innovative products might also increase market mediation cost, such as markdowns or stock-outs, so Market-Responsive Process might be a more suitable supply chain management method for managers to use. Also, since innovative products have unpredictable demand and shorter life cycle, managers not only need to consider supply chain side but also needs to focus on market respond when making decision.

f) Benchmarking

Benchmarking or goal setting allows a company to assess the opportunities they may have for improving a number of areas in their supply chain including productivity, inventory accuracy, shipping accuracy, storage density, and bin-to-bin time. The benchmarking process can provide a company some estimate of the benefits achieved by the implementation of any improvements.

As the name implies, benchmarking is comparing performance of a company's logistics or supply chain systems with that of its competitors or with successful companies in Other industries.

In the case of the supply chain, processes at this supply end, the internal processes and the processes at the distribution end can all be benchmarked.

UNIT 7

Physical Distribution and Logistics Management

Value of customer service in logistics management

Customer value can be defined quite simply as the difference between the perceived benefits that flow from a purchase or a relationship and the total costs incurred.

the role of customer service is to provide ‘time and place utility’ in the transfer of goods and services between buyer and seller.

Customer service is generally presumed to be a means by which companies attempt to differentiate their product, keep customers loyal, increase sales, and improve profits. Its elements are price, product quality, service. Most important customer service elements include On-time delivery, Order fill rate, Product condition, accurate documentation.

One of the importance of service to customers in logistics management is it affects customer patronage, it plays a crucial rule in maintaining the customer base. In management it is believed that on average it is 6 times more expensive to develop a new customer than it is to keep a current one.

OTHER TOPICS OF THIS CHAPTER CAN BE REFERRED TO THE DISTRIBUTION MANAGEMENT BOOK BY Laxman Raj Kandel.

UNIT 8

Distribution Management in Nepal

Mode of transportation in Nepal

Transport means carrying people and goods from one place to another, for example, by using buses or trains. It is very important both in our daily life and in the process of national development. We cannot walk long distances on foot; nor can we carry heavy loads on our back. Other kinds of development also depend on the development of transport. If we have to build schools for the development of education or hospitals for health services for people, we need roads and trucks or tractors to carry brick, stone, sand, cement, etc. Man is a social animal. He has social relations with other people who live far from him. His own family members may be doing job in distant places. They must go and come back home, and for this the only means is transport. Besides this, our requirements have increased tremendously. We need to import goods. Here also lies the importance of transport.

Roadways, airways, waterways, railways and ropeways are the various systems of transport. Of these, Nepal has developed mainly two types of transport: roadways and airways. But Nepal is still poor in transport. There are two main reasons for it -physical feature and economic backwardness of the country. There are high mountains, hills, deep valleys and rivers. Building roads in such places is very difficult. Besides, Nepal is a landlocked country. So sea-route is not available. For a poor country like Nepal, it is difficult to meet the high expenses of constructing roads. We have to depend upon other countries' assistance for major roads. So yaks, ponies, sheep, etc. are still used to carry goods in the mountains. Even in the rural areas of the terai bullock carts, horses, bicycles, etc. are used. Frequently flood, landslide, soil erosion, etc. occur and damage our roads and bridges.

Roadways in Nepal

Nepal has made considerable progress in roadways. There are several highways which link different parts of the country. Some highways are East-West Highway Joining Mechi-Mahakali, Pokhara-Baglung Highway, Tansen-Tamghas Highway, Gorusinge-Sandhikharka Highway, Nepalgunj-Surkhet Highway, Kathmandu-Jiri Highway, Kathmandu-Dhading Highway, Ilam-Taplejung Highway, etc. Apart from these local highways, mule-trails and foot-trails are also developing in different parts of the country with people's participation.

Airways in Nepal

Air transport has been operative in our country since 1953 AD. Nepal Airlines Corporation (NAC) came into existence in 1958 AD. It was called Royal Nepal Airlines Corporation (RNAC) before 2063 BS. The NAC planes

fly to different places in the country and abroad like India, Pakistan, Japan, Hong Kong, Bangladesh, Qatar and Bangkok. Other companies like Yeti Airlines, Buddha Airways, Gorkha Air, Shangrila Air and Sita Airways are also operating their flights. There are about 52 airports in

Nepal. The remote parts of Nepal have air links with the capital or other large cities. Helicopter services are also available in our country. Though a bit expensive, air service is very important in Nepal because many places in the mountains have still to rely on this service and it is essential for tourism and external trade of the country.

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Railways Transportation in Nepal

Railway service is limited in our country because there are hills and mountains in most parts. Only a small part in the Terai has the railway. The only railway operative in Nepal is Janakpur-Jaynagar Railway connecting Bijalpura with Jaynagar in India. It covers a distance of 53 kilometres. But the railway service is not very good. The engines and the carriages are very old, and during the rainy season, the service is disrupted. There was another railway running from Amlekhgunj to Raxaul in India. It has been discontinued now. We must extend railways at least across the Terai region for the national development.

Ropeways Transportation in Nepal

Ropeways are very useful in Nepal where there are many, mountains. There are two ropeways currently operative in our country. Cable Car service is operative from Kurintar in Chitwan District to the famous Manakamana temple in Gorakha district. Its length is 3.1 km. Another ropeway is 42 km. long and runs from Hetauda to Kathmandu. But it is not running regularly. It is not maintained well either.

Waterways Transportation in Nepal

In spite of vast water resources in Nepal, we have no reliable water transport. Our rivers mostly flow down steep slopes. So these rivers are not suitable for transport. We have no access to seas or oceans. So good water transport is lacking in Nepal. However, rafting in the Trishuli and the Kaligandaki rivers is very popular. Some lakes like Phewa, Rupa, Begnas have boat services.

Steamers are sailing on the reservoir of Kaligandaki A Hydropower of Syangja. A feasibility study of waterways from Ramdighat to Narayangadh and Narayangadh to Bhainsalotan has been made. We need to widely utilize this potential of water transport

Pipeline in Nepal

The Nepal-India cross-border oil pipeline project — Motihari-Amlekhgunj petroleum pipeline project, previously called Raxaul-Amlekhgunj oil project — has been expedited with the active participation of Indian Oil Corporation.

On the Nepali side, the pipes will be laid along the 36.2 kilometre route from Raxaul, the Indian border to Amlekhgunj via Birgunj Customs, Birgunj Bypass, Gandak, Parwanipur, Jitpur, Simara and Pathlaiya; on the Indian side, the pipes will be laid along the 32.7 km route from Motihari in eastern Champaran to Raxaul.

Although majority of groundwork for the project has been completed, work relating to forest clearance is still pending. The Environmental Impact Assessment (EIA) of the pipeline project and the Ministry of Population and Environment (MoPE) will soon approve the document.

The Indian government will inject INR 3.5 billion into the project; the expenditure related data from the Nepali side has not been made public yet.

The Raxaul-Amlekhgunj oil pipeline was first proposed in 1996. However, the project edged closer to reality during Indian Prime Minister Narendra Modi's visit to Kathmandu in 2014. The two countries had inked an agreement to construct the pipeline in August of 2015.

Problems and challenges in distribution system of Nepal

a) **Difficult Topography**
Topography refers to the arrangement of the natural and artificial physical features of an area. Nepal is a unique country with differing topography through out the country. Due to existence of hills, Himalayas the development of transportation has always been a big hindrance.

b) **Landlocked character of the country**
As Nepal does not have any direct access to the sea or ocean we miss the utilization of using the affordable access to trade and linkage with industrial giants of the world. This has led to dependence upon a small number of neighboring countries for your bulk imports and exports.

c) **Scarce domestic productions**
Nepal's domestic production is pathetic. Currently we are only known to be independent in dairy product, meat and eggs.

d) **Import-based economy**
Nepal is the 160th largest export economy in the world. In 2016, Nepal exported $696M and imported $6.51B, resulting in a negative trade balance of $5.82B. In 2016 the GDP of Nepal was $21.1B and its GDP per capita was $2.48k. The top exports of Nepal are Flavored Water ($92.2M), Knotted Carpets ($75.7M), Non-Retail Synthetic Staple Fibers Yarn ($58.4M), Nutmeg ($34.3M) and Other Plastic Products ($33.2M)

e) **Lack of proper rules and regulations**
Due to lack of stable government and regulatory bodies we lacked in implementation of rules and regulations in the country. Due to this "mafia" of black marketing, syndicate

ruled the transportation of the country which largely pushed the country in more darkness of economic development.

f) **Geographical concentration of industries and business**
All the industries and business of the country are largely established in the city areas where the density of population is high which has resulted in distribution of products in the city areas only and the people living villages do not have easy access to products.

g) **Lack of visionary decisions (short sidedness decision) with planners and decision makers**
Due to political affluence in the recruitment of planners and decision makers, they lack vision and plan to develop the distribution of the country rather only to benefit some personal leaders.