Sales and Distribution Management
Course Code : MGMT4036

UNIT – 4 & 5
Part - I
Marketing Channel & Designing Channel System

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Content

Part – I

Unit 4 : Marketing Channel

- Importance;
- Structure;
- Flow,
- wholesaling: Functions; Classification; key tasks,
- Retailing: organized Retail in India; Types of Retailer; Role of Retailer, E-Tailing

Unit 5 : Designing Channel System

- Channel Design;
- Channel Planning,
- Selecting Channel Partners: Change; training; Motivating; Evaluating,
- Channel Management: Use of Power; Channel Conflict, Channel Information System.

✓ Distribution Management

- Determines optimal quantities of each product to be made at each plant and to be distributed to each warehouse, such that manufacturing.
- It refers to the process of overseeing the movement of the goods from the supplier or manufacturer to point of sale.
- It is an overarching term that refers to the numerous activities and processes such as packaging, inventory, warehousing, supply chain, and logistics.
- It is the most important part of the business cycle for distributors and wholesalers. The profit margins of the business depend on how quickly they can turn over their goods.

Therefore, Distribution is the management of all activities which facilitate movement and co-ordination of supply and demand in creation of time, place utility in goods

It is the Art and Science of determining requirements, acquiring them, distributing them and finally maintaining them in an operationally ready condition for their entire life

Types of distribution broadly implies with:

1. **Channel Management**
2. **Physical Distribution**

Channels is implies with the path through which goods and services travel from the vendor to the consumer or payments for those products travel from the consumer to the vendor.

✓ Numbers of Distribution Channel Levels

Each layer of marketing intermediaries that performs some work in bringing the product to its final buyer is a "channel level".

The figure below shows some examples of channel levels for consumer marketing channels:

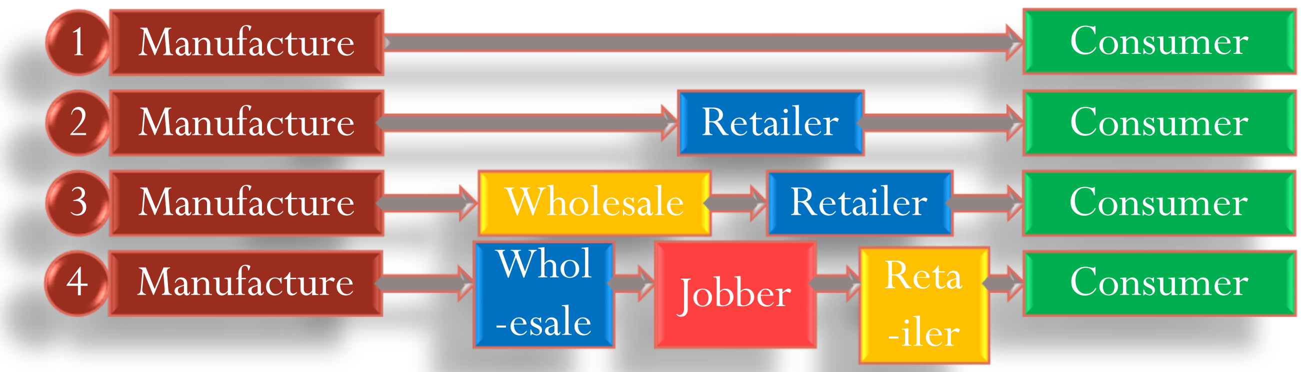


Fig : Examples of customer marketing channels

Channel 1 :

- Channel 1 is called a "direct-marketing" channel, since it has no intermediary levels.
- In this case the manufacturer sells directly to customers. An example of a direct marketing channel would be a factory outlet store.
- Many holiday companies also market direct to consumers, bypassing a traditional retail intermediary - the travel agent.
- The remaining channels are "indirect-marketing channels".

✓ Numbers of Distribution Channel Levels Cont…

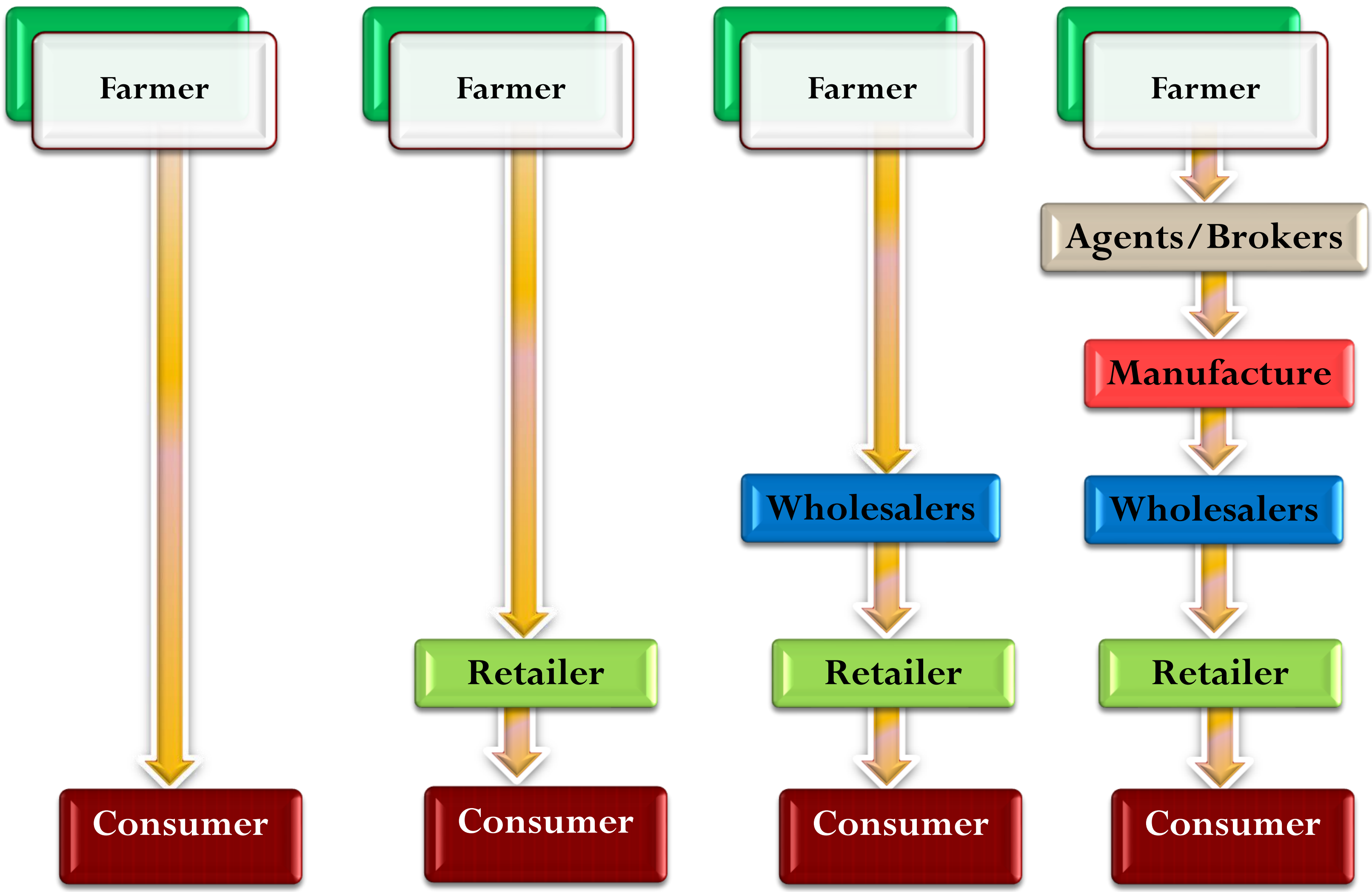
Channel 2 :

- Channel 2 contains one intermediary. In consumer markets, this is typically a retailer.
- The consumer electrical goods market in the UK is typical of this arrangement whereby producers such as Sony, Panasonic, Canon etc. sell their goods directly to large retailers such as Comet, Dixons and Currys which then sell the goods to the final consumers.

Channel 3 :

- Channel 3 contains two intermediary levels - a wholesaler and a retailer.
- A wholesaler typically buys and stores large quantities of several producers' goods and then breaks into the bulk deliveries to supply retailers with smaller quantities.
- For small retailers with limited order quantities, the use of wholesalers makes economic sense. This arrangement tends to work best where the retail channel is fragmented - i.e. not dominated by a small number of large, powerful retailers who have an incentive to cut out the wholesaler.
- A good example of this channel arrangement in the UK is the distribution of drugs.

✓ Different distribution channel



❖ Overview about participants in distribution channels

- **Agents : -**
  - An independent individual or company, they takes possession of products but do not actually own them.
  - Their primary selling aim of the producer and represent the producer to users, they make profits from commissions or fees paid for the services they provide to the producer and users.
- **Wholesalers:-**
  - Independently owned firms that take title to the merchandise they handle.
  - Wholesalers purchase product in bulk and store it until they can resell it.
  - Wholesalers generally sell the products they have purchased to other intermediaries, usually retailers, for a profit.
- **Retailers:-**
  - A retailer takes title to, or purchases, products from other market intermediaries.
  - Retailers can be independently owned and operated like small "mom and pop" stores, or they can be part of a large chain, like Wal-Mart.
  - The retailer will sell the products it has purchased directly to the end user for a profit

✓ Logistics and marketing management

- Logistics and marketing management are concerned with the effective flow of products and services in the economy and pertain to the distribution of both consumer and industrial goods.

- Marketing is considered to be a vital part of an economy and there is a need for an efficient marketing system which can ensure that all marketing activities are carried out in accordance with the predefined goals of the business.

- Logistic managers are given the task of marketing logistics as well as communicating logistics with a purpose of positioning logistics in the present competitive environment.

- The cut-throat competition so commonly associated with many current organizations has caused most businesses all over the world to remain proactive and any organization which ignores the importance of logistics has to blame itself.

- The entire purpose of logistics is defined when the

✓ Functions of a Distribution Channel

The main function of a distribution channel is to provide a link between production and Consumption.

Organisations that form any particular distribution channel perform many key functions:

1. **Information :** Gathering and distributing market research and intelligence - important for marketing planning.
2. **Promotion :** Developing and spreading communications about offers.
3. **Contact :** Finding and communicating with prospective buyers.
4. **Matching :** Adjusting the offer to fit a buyer's needs, including grading, assembling and packaging .
5. **Negotiation :** Reaching agreement on price and other terms of the offer.
6. **Physical distribution :** Transporting and storing goods.
7. **Financing :** Acquiring and using funds to cover the costs of the distribution channel.
8. **Risk taking :** assuming some commercial risks by operating the channel (e.g. holding stock).

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

✓ Benefits of Distribution Management System

- **Improve customer satisfaction while minimizing cost -**

Effective manage the distribution processes with real time visibility of the available inventory, inventory in transit, reorder quantities, and inventory costs. Minimize the inventory process and the costs; optimize quoting, acceptance, entry, and fulfillment process.

- **Reduce order time -**

Eliminate delays through the automated sales order processing and shipping order generation. Set rules to manage the multiple warehouses, return, credit limits, drop shipments, and more.

- **Know where your Business is -**

Ensure a steady supply of materials by optimizing and automating your purchasing processes.

- **Know your true costs -**

_Determine real-time profitability by the warehouse, product line, location, or business unit. Use real-time information to control the costs across the entire supply and distribution chain.

✓ The channel Power

The channel power refers to the ability of any one channel member to alter or modify the behavior of the other members in the distribution channel, due to its relatively strong position in the market

Generally, the manufacturers are seen, dominating the behavior of other channel partners and influencing their actions according to its requirements.

✓ Types of channel power

Types of Channel Power :

✓ Types of channel power Cont…

1. Coercive Power :

The manufacturer threatens to terminate the relationship with other channel partners or withdraw the resources developed with them. With this power, the manufacturer can dominate the others and keep them under his control.

2. Reward Power :

The manufacturer provides several additional benefits to the intermediaries, with the intention to motivate them to perform certain activities as required.

This power is very useful since it brings in the maximum efforts from each channel partner, but this may sometimes be negative as the channel partners may always seek for the benefits in case, they are required to do some other activity.

3. Legitimate power :

Here the manufacturer reminds the channel partner to carry out their activities in accordance with the contract they have entered into at the time they became the channel partners.

4. Expert Power :

The manufacturer has the expertise that he transfers to the channel partners, and once they acquire it, the power of expertise reduces. Thus, the manufacturer should keep the channel partners updated with the day to day operations.

The manufacturer uses this power to retain the interest among the channel partners to work, but the intermediaries may not feel to learn any new things apart from what they have learned.

5. Referent Power:

The manufacturer should develop its image in such a way, that the intermediaries must feel proud to be associated with it.

The manufacturer with the influential image can get varied options with regard to the channel partners.

✓ Channel conflict

A channel conflict may be defined as "A situation in which one channel member perceives another channel member(s) to be engaged in behavior that prevents it from achieving its goals."

Conflict is opposition, disagreement or discards among the organizations.

There is different type of channel conflict:-

1. Vertical Conflict
2. Horizontal Conflict
3. Inter Type Conflict
4. Multi-Channel Conflict

✓ Channel conflict Cont…

1. Vertical Conflict: -

- vertical conflict occurs due to the differences in goals and objectives, misunderstandings, and mainly due to the poor communication.
- Lack of role clarity and over dependence on the manufacturer. For e.g. today the large retailers dominate the market and dictate the terms. Hence there are often conflicts between these giant retailers and the manufacturers.

❖ Some common reasons for vertical conflict are:

1. **Dual distribution:** manufacturers may bypass intermediaries and sell directly to consumers and thus they compete with the intermediaries.
2. **Over saturation:** manufacturers permit too many intermediaries in a designated area that can restrict, reduce sales opportunities for individual dealer and ultimately shrink their profits

2. Horizontal Conflict: -

- Horizontal conflicts are the conflicts between the channel members at the same level, i.e. two or more retailers, two or more franchises etc. these conflicts can offer some positive benefits to the consumers.
- Competition or a price war between two dealers or retailers can be in favor of the consumers.

✓ Channel conflict Cont…

❖ Reasons behind horizontal conflicts:

- Price-off by one dealer/retailer can attract more customers of other retailers.
- Aggressive advertising and pricing by one dealer can affect business of other dealers.
- Extra service offered by one dealer/retailer can attract customer of others.
- Crossing the assigned territory and selling in other dealers/retailers/ franchises area.
- Unethical practices or malpractices of one dealer or retailer can affect other and spoil the brand image.

3. Inter Type Conflict: -

- Inter type conflict occurs when, the intermediaries dealing in a particular product starts trading outside their normal product range.

4. Multi-Channel Conflict: -

- It occurs when the manufacturer uses a dual distribution strategy, i.e. the manufacturer uses two or more channel arrangements to reach to the same market.
- Manufacturers can sell directly through their exclusive showroom or outlets. This act can affect the business of other channels selling manufacturer's brands.

✓ Managing channel conflict:-

Several approaches for effective conflict management:

1. **Regular Communication**
2. **Forming Dealer Councils**
3. **Co-Option**
4. **Arbitration and Mediation**

Apart from some other tactics uses for managing conflict, i.e. Diplomacy and litigation.

THANK YOU