CHAPTER—4

SUB-DIVISION OF DISTRIBUTION CHANNEL SYSTEMS

• CHANNEL OF DISTRIBUTION

• PHYSICAL DISTRIBUTION(MARKETING LOGISTICS)
SUB-DIVISION OF DISTRIBUTION CHANNEL SYSTEMS

1. CHANNELS OF DISTRIBUTION

1.1 INTRODUCTION
We might know the needs and wants of our customers, and we might have exactly the right product to meet those needs and wants. However, to satisfy our customers, we have to close the gap between the product, here, and our customers, over there. We close that gap with a distribution system using marketing channels which bring our product to the customer.

The channels of distribution are sometimes called marketing channels. The terms refer to systems of interdependent organizations that facilitate the movement of the physical product or service from the producer to the consumer; and they include the producer, consumer and all the intermediaries involved in distribution. Marketing channels incorporate all of those things that are involved in the exchange process that is central to marketing.

Marketing channels can be direct or indirect and/or have centralized or decentralized exchanges. A centralized exchange system has a high time and place utility because in such an economy you can purchase many products from the one location, such as from a supermarket, in a small amount of time.

What we do not readily see in a centralized exchange system are the many functions and activities undertaken prior to the product reaching the store from which we buy it. Market channels can take the form of intermediaries who may take title to the goods, or agents who do not take title but still act as a go-between, assisting the producer in getting the product to the consumer. Such intermediaries often adopt many of the marketing functions of the producer. On the other hand, intermediaries often act simply as facilitators, providing a service (like transportation and finance) but are not otherwise involved in the marketing of the goods and services.

Marketing channels refers to the ways in which products move from the manufacturer to the distributor to the end user. Also called distribution channels, the number and efficiency of a company's marketing channel can have a strong impact on the company's success. If a company does not have enough channels through which to market their goods, or if the channels are inefficient and expensive, it can be difficult for a company to locate customers for its products and/or to make a profit on sales of its products.

Some companies, often referred to as direct marketing companies, sell the product directly from the manufacturer to the end user, or consumer. In such cases, the companies do not create or establish marketing channels. Instead, the consumer orders directly and the item is shipped to him, reducing costs for marketing and distribution. It can be difficult, however, for a manufacturer to locate customers using this form of marketing, since it may be less convenient if there is no storefront for a customer to go to or no local retailer a customer can interface with; the Internet, however has reduced this problem somewhat and given rise to more direct selling.

Most often, however, products do not go directly from the manufacturer to the end user. Instead, the products are first sent to a distributor or retail outlet. The retail outlets and
distributors that a product is sent to can be referred to marketing channels. For example, a company that produces clothing may have multiple marketing channels: it may send its clothing to boutique stores throughout the country and to large chain stores and department stores as well.

The manner in which the product gets from the manufacturer to the distributor or store selling its product is a part of the marketing channel. The clothing may move from the clothing designer to the plant that creates the design to the shipping company that moves the design to all of the boutiques to the boutiques themselves. This is one particular marketing channel. A different channel may be used to send the items to the department stores; for example, perhaps a different shipping company is used or a different manufacturer to produce the items sold to the larger stores.

Usually, the more steps in the marketing channels, the higher the end cost is to the consumer. This phenomenon occurs because each of the people involved in the channel, or each of the "middle men," must be paid a premium, or fee. Thus an item sold in a direct sale may cost far less than the same item which had to be sent through several distribution steps before it reached the consumer.

1.2 SOCIAL DIMENSIONS OF CHANNEL

FIGURE:

Channel Power is a channel member's capacity to control or influence the behaviour of other channel members. Channel control occurs when one channel member affects another member's behaviour. To achieve control, a channel member assumes channel leadership and exercises authority and power. This member is termed the channel leader or channel captain. In one marketing channel, a manufacturer may be the leader because it controls new product designs and product availability. In another a retailer may be the channel leader because it wields power and control over the retail price, inventory levels and postal service the exercise of channel power is a routine element of many business activities in which the outcome is often greater control over a company's brand. Apple started its line of retail stores because management was dissatisfied with how distributors were selling the company's computers (i.e. with its lack of control). Macintosh displays were often buried inside other major retail stores, surrounded by personal computers running the most popular Windows operating system by Microsoft. To regain a position of power in the marketing channel, Apple hired a retail executive to develop a retail strategy, which relied
heavily on company owned stores that reflected Apple's design sensibilities. Now we will discuss it in detail way:

1.21 CHANNEL POWER
"THE CAPACITY OF A PARTICULAR MARKETING CHANNEL MEMBER TO CONTROL OR INFLUENCE THE BEHAVIOR OF OTHER CHANNEL MEMBERS."

Power is defined as the ability of one channel member to control decision variables in the marketing strategy of another member in the channel operating at another level e.g., a manufacturer's ability to get a distributor to do what he would not have done otherwise. Power is derived from various power sources or bases such as coercive power, legitimate power, referent power, expert power, and information power. Other researchers have partitioned or dichotomized the set of power sources into two groups. Hunt and Nevin (1974) used a coercive-no coercive distinction, with the latter including reward, expert, referent, and legitimate power sources. Etgar (1978) was the first to apply an economic/non-economic dichotomy, grouping reward and coercive sources in the economic category.

The marketing intermediaries of the distribution channels are contributing remarkably to delivers the products from manufacturer to end users. To deliver the product from manufacturer to consumer efficiently and effectively, channel members have to bear different responsibilities and to perform different roles. Though channel members' responsibilities and duties at the distribution channel are dissimilar to each other, the mutual understanding between the channel members has affected to build the strong relationship to uplift the performance of the channel. Recent research on distributive channels has indicated that conduct of channel members as well as performance of channels is affected considerably by the behavioural interactions among channel members and specifically by their power relations.

A channel can be made up of many parties each adding value to the product purchased by customers. However, some parties within the channel may carry greater weight than others. In marketing terms this is called channel power, which refers to the influence one party within a channel has over other channel members. When power is exerted by a channel member they are often in the position to make demands of others. For instance, they may demand better financial terms (e.g., will only buy if prices are lowered, will only sell if price is higher) or demand other members perform certain tasks (e.g., do more marketing to customers, perform more product services).

Channel power can be seen in several ways:

**Backend or Product Power** – Occurs when a product manufacturer or service provider markets a brand that has a high level of customer demand. The marketer of the brand is often in a power position since other channel members have little choice but to carry the brand or risk losing customers.

**Middle or Wholesale Power** – Occurs when an intermediary, such as a wholesaler, services a large number of smaller retailers with products obtained from a large number of manufacturers. In this situation the wholesaler can exert power since the small retailers are
often not in the position to purchase products cost-effectively and in as much variety as what is offered by the wholesaler.

**Front or Retailer Power** – As the name suggests, the power in this situation rests with the retailer who can command major concessions from their suppliers. This type of power is most prevalent when the retailer commands a significant percentage of sales in the market they serve and others in the channel are dependent on the sales generated by the retailer. Some channel members need others more than others need them. For example, Wal-Mart has a lot more power, given its large volume purchases, than many of its suppliers. There are several sources of power. **Reward power** involves a channel member being able to positively reinforce another’s performance—e.g., Coca Cola may be able to give a price break or pay a fee for additional shelf space. A retailer that meets a certain goal—e.g., the sale of 50,000 cases per month—may receive a bonus. In contrast, **coercive power** involves the threat of a punishment. A large retailer, for example, may tell a small manufacturer that no further orders will be forthcoming unless a price discount is offered. **Expert power** includes knowledge. Wal-Mart, for example, because of its heavy investment in information technology, can persuasively argue about likely sales volumes at different price levels. **Legitimate power** involves government or other regulations—e.g., auto dealers have a great deal of power over auto makers because only they are allowed to sell to end customers in the continental U.S. under most circumstances. Finally, **referent power** involves the desire of the other side to be associated—most manufacturers of upscale merchandise are highly motivated to ensure their availability at Nordstrom’s.

**Power Sources**

During the last decades, the sources of power have received considerable conceptual and empirical attention in the marketing literature (Gaski 1986). In 1959, French and Raven have identified the five power sources including reward power, coercive power, legitimate power, referent power and expert power. The relationship between power and the sources of power in a conventional channel of distribution has been explored empirically (Etgar 1976). Empirical research examined five different sources of power in channel relationships, based on classical typology developed by French and Raven.

Which type of power source is most effective? This is the question that research has focused since French and Raven introduced their five forms of power (Nelson & Quick 1994). The study focus on following power sources;

**Reward Power:** Reward power based on one party’s (the source firm) ability to gives/offers the rewards for other party (the target firm) (Nelson and Quick 1994).

**Coercive Power:** The source firm’s ability to influence unpleasantly for the target firm, such type of power can be categorized as coercive power (Nelson and Quick 1994).

**Legitimate Power:** Power as legitimating needs to do nothing to secure its will if people already want to do what is expected of them (Clegg et al. 2005).

**Referent Power:** Swasy (1979) defined the referent power as results largely from the influence’s feelings of identification with the influencer and desire to maintain similarity with influencer.

**Expert Power:** Expertise is a means by which the power holder comes to control specialized information (Robbins, 1993).
**Prestige Power:** Given the current stage of literature, it is difficult to recognize the potential of prestige power as another effective power source. Beyond the insufficient theoretical explanation, the study assumes that prestige power performs an important role as a power source within the South Asian social context.

**Channel Power Paradigm**

Power has always played a core role in relationships in distribution channels. When one channel member seeks to get another channel member to take an action that it otherwise would not have pursued, power has been exercised in the channel. Over the past four decades, marketing channels researchers have examined power in distribution channels extensively. The five bases of power, usually identified as reward, coercion, legitimate, reference, and expertise have all received considerable attention with a particular focus on the adverse effects associated with the use of coercive power.

Some general findings emerging from this research are:
- In order to influence channel member behavior, some form of power must be exercised. Therefore, the use of power in the channel is inevitable and pervasive.
- The effectiveness of various power bases in influencing channel member behavior is situation specific.
- How power is used in the channel can affect the degree of cooperation and conflict in the channel as well as channel member satisfaction.
- Coercive power tends to foster conflict and channel member dissatisfaction to a greater degree than other power bases.

**The role of power in distribution channels:**

Channels of distribution can be viewed as social systems comprising a set of interdependent organizations, which perform all the activities (functions) utilized to move a product and its title from production to consumption. Because of this interdependency there arises a need for some form of cooperation between channel members and co-ordination of activities. This cooperation and co-ordination is necessary in order to ensure predictability and dependability between members which will allow individual organizations to plan effectively. Also, conflict arises in channels, because members sometimes have incompatible goals, differing ideas as to the functions each should perform, and differing perceptions of reality. This conflict needs to be controlled so that it does not disrupt channel functioning. Power or, rather, the use of power by individual channel members to affect the decision making and/or behaviour of one another (whether deliberate or not), is the mechanism by which the channel is organized and orderly behaviour preserved. This is not meant to imply that organizations necessarily set out deliberately to organize the channel, but that this organization of the channel arises out of individual organizations adjusting their behaviour to one another in relation to the power they each have and use. However, in some channels, firm(s) may assume a leadership role and make deliberate attempts to organize the channel, making use of their power. Power is the means by which cooperation between individual channel members' activities are co-ordinated and the means by which any conflict between firms is controlled.
Bierstedt, in a general context, has aptly summarized the role of power in any system: "Power supports the fundamental order of society and the social organizations within it, whenever there is order. Power stands behind every association and sustains its structure. Without power there is no order". The study of power must be, therefore, an important part of the study of distribution channel behaviour and will have important implications for the study of physical distribution management. Moreover, the study of power is of increasing importance today as the need for effective co-operation and coordination of activities between channel members grows. Two basic, though not necessarily unrelated, forces underlie this trend. First, with the increasing rate of technological change being experienced today and the constant introduction of new products, the tasks of marketing become more complex and, as Alderson[8] has argued: "The more complex the marketing task becomes the more necessary it is for a channel to operate as an integrated whole in order to attain efficiency". Channels cannot operate as integrated wholes without effective co-operation and co-ordination between their members. The second force concerns the changing nature of the environment which channels are facing in the 1970s. In a general context, Emery and Trist have pointed out that the type of environment increasingly facing organizations of all kinds is such that no longer can individual organizations cope effectively by themselves. One aspect of this is the situation of the organizations comprising a distribution channel. The rise of consumerism and the increasing concern being given to man's effects on his natural environment create problems with which individual organizations cannot cope alone. Partly, these problems can be met by better co-operation and co-ordination between organizations in distribution channels. However, these environmental changes also suggest the need for some degree of co-operation and co-ordination between whole channels.

These two forces increase the importance of the study of power because cooperation and co-ordination require some form of power structure. Having established the critical importance of power considerations in channels in particular, the use of power by firms, the discussion moves on to consider in detail the firm's use of power. This is an area that has been strangely neglected in the literature, which has been mainly concerned with the sources of power and its distribution in channels. In particular, the discussion centres on the factors affecting the nature and extent to which power will be exerted in a given situation, the factors affecting the outcome of any such exertion and, lastly, the nature of feedbacks produced by the use of power. First, however, a short digression on the various methods of using power would seem appropriate.

1.22 CHANNEL CONTROL
"A SITUATION THAT OCCURS WHEN ONE MARKETING CHANNEL MEMBER INTENTIONALLY AFFECTS ANOTHER MEMBER'S BEHAVIOR."
Manufacturer management of distribution involves the adjustment of the mix of Product spatial availability, local promotion, final buyer price and quality maintenance. Where middlemen are used in the channel, it also includes the design of control procedures to insure compliance with the desired mix.

Control is ".............. any process in which a person or group of persons or organization of persons determines, that is, intentionally affects, the behavior of another person, group or organization."
Historically successful method of control for manufacturers have been weakened in recent years by middleman trade association pressures, legislative action and expansion of the antitrust law domain. This research discusses the basic channel forces that cause manufacturers to seek control of middleman activities. The nature of the economic and behavioral conditions affecting this limitation are explored and implications are drawn for further research and control channel management: practice.

1.23 CHANNEL CONFLICT

"Disagreement among marketing channel members on goals and roles—who should do what and for what rewards."

Marketers often believe in the theory that increasing distribution members helps in boosting sales. Addition of resellers should be a well thought out strategy as this may often lead to channel conflict. Existing resellers often feel threatened by the addition of new ones as they see it as a threat to their business. Additional resellers mean sharing of customers and potential business and this is not always taken down well by the existing resellers. In case the resellers feel this conflict they may even stop selling the marketer's product.

Conflict exists in a channel when a component (channel member) perceives the behavior of another to be impeding in the attainment of its goals or the effective performance of its instrumental behavioral patterns. Marketing channel are particularly prone to encounter conflict because of the constant interaction among suppliers and retailers. Channel members can therefore identify and estimate the impact of the behavior of their trade partners on their own marketing strategies and associate successes or failures with the activities of particular channel members. Thus, rivalry is expected to be more explicit in marketing channels.

Interpersonal conflict may exist between the members of a channel (e.g., manufacturer and retailer). Any component of the marketing mix may cause interpersonal conflict. Conflict may also occur between the manufacturer and the retailer because of the desire of both to eliminate the wholesaler.

The concept of organizational conflict can be extended to the marketing channel. Conflict in a channel (which can be viewed as a system) can be expected since a channel can be viewed as simply an extension of one's own internal organization. In this case the level of authority of the manufacturer, the wholesaler, and the retailer; delegation of power, and the considerable complexity of the channel may be the possible sources of conflict.

In an effort to increase product sales, marketers are often attracted by the notion that sales can grow if the marketer expands distribution by adding additional resellers. Such decisions must be handled carefully, however, so that existing dealers do not feel threatened by the new distributors who they may feel are encroaching on their customers and siphoning potential business. For marketers, channel strategy designed to expand product distribution may in fact do the opposite if existing members feel there is a conflict in the decisions made by the marketer. If existing members sense a conflict and feel the marketer is not sensitive to their needs they may choose to stop handling the marketer's products.

We have seen throughout the term that conflict exists between channel members. For example, Coca Cola would like to increase its sales by offering a discount on its cans. However, the retailer knows that overall soda sales will not go up much when Coke is put on sale—consumers who bought other brands will just switch, for the most part. Therefore, the
retailer might like to "pocket" any discount that Coke offers. Similarly, Bass might like to increase its sales by selling to Costco, but its full service retailers will object to this competition. A number of approaches to resolution are available, but none are perfect. Sharing of information may help build trust, but this can be expensive, cumbersome, and may result in this information being available to competitors. The two sides might seek outside mediation, with a supposedly neutral party suggesting a fair solution, or the two sides may try to compromise on their own. One side may accommodate the other, but may not be motivated to continue to do so in the future, or the other may try to coerce its way through threats of punishment.

Channel conflict occurs when the vendor and the reseller, or different reseller types (retail, VAR, mail order, Internet) compete for the same business. I say "most" of the channel conflict, since it is fine to have some conflict--resellers may compete, and there may be some of the business that you can take direct. For example, you might go direct with massive deals that are too big for a reseller to finance (such as a 1.3 billion deal overseas), or very small deals that don't require any special training/installation/consulting--hence won't provide margins for your resellers who make money on their 'value added' services. Inequitable channel relationships often lead to channel conflict, which is a clash of goals and methods among the members of a distribution channel. In a broad context, conflict may not be bad. Often it arises because staid, traditional channel members refuse to pace with the times. Removing an outdated intermediary may result in reduced costs for the entire supply chain. The internet has forced many intermediaries to offer services such as merchandise tracking and inventory availability online.

Conflict among channel members can be due to many different situations and factors. Oftentimes, conflict arises because channel members have conflicting goals. For instance, athletic footwear retailers to sell as many shoes as possible in order to maximize profit, regardless of whether the shoe is manufactured by Nike; Adidas. But the Nike manufacturer wants a certain sales volume and market share in each market.

Conflict can also arise when the channel members fail to fulfill expectations of other channel members. For example, when a franchisee does not follow the rules set down by the franchisor, or when communication channels break down between channel members. As another example, if a manufacturer shortens the period of warranty coverage and fails to inform the dealer of this change, conflict may occur when dealers make repairs expecting that they will be reimbursed by the manufacturer. Further, ideological differences and different perceptions of reality can also cause conflict among channel members. For instance, retailers may believe "the customer is always right" and offer a very liberal return policy. Wholesalers and manufacturers may feel that people "try to get something for nothing" or don't follow product instructions carefully. Their differing views of allowable return will undoubtedly conflict with those retailers.

The channel captain or leader, the dominant and controlling member of a distribution channel, must work to resolve conflicts between channel members.

Conflicts can be horizontal and vertical.

Horizontal & Vertical Conflict

Horizontal conflict occurs among firms at the same level of the channel (i.e. between two retailers). Vertical conflict is conflict between different levels of the same channel (i.e.
between a wholesaler and a retailer). Some conflict in the channel takes the form of healthy competition. Severe or prolonged conflict, however, can disrupt channel effectiveness and cause lasting harm to channel relationships.

Conflict within a channel can be horizontal or vertical. Horizontal conflict occurs among channel members on the same level, such as two or more different wholesalers or two or more different retailers, that handle the same manufacturer's brands. This type of channel conflict is found most often when manufacturers practice dual or multiple distribution strategies. When Apple changed its distribution strategy and began opening its own stores, it angered Apple's traditional retail partners, some of whom ultimately filed lawsuits against the company. The primary allegation was that Apple stores were competing unfairly with them and that Apple favored its own stores when allocating desirable inventory (like iPods). Horizontal conflict can also occur when some channel members feel that other members in the same level are being treated differently by the manufacturer.

Many regard horizontal as healthy competition. Much more serious is vertical conflict, which occurs between different levels in a marketing channel, most typically between the manufacturer and wholesaler or the manufacturer and retailer. Producer versus wholesaler conflict occurs when the producer chooses to bypass the wholesaler and deal directly with the consumer or retailer. Dual distribution strategies can also cause vertical conflict in the channel. Producers and retailers may disagree over the terms of the sale or other aspects of the business relationship.

To minimize conflict we could:

> Segment the products (different products are sold through different reseller types or channels)
> Setup exclusive or limited territories
> Sell direct at a higher price than the average street price
> Setup different promotions for different resellers--rotating so they all have advantages at different times
> Provide MDF/Co-op and let the resellers choose to establish their own competitive advantage
> Setup reseller levels--rewarding higher margins and support for higher authorization (the resellers choose whether they can be competitive)
> Setup a process to determine if a customer has worked with a reseller prior to taking the business direct (so you don't steal business they cultivated), etc.

There are multiple ways that you can reduce conflict--the key is to be aware that it could exist and of your ramifications (short and long-term), and that you do something about it to keep your reseller and revenue targets satisfied.

One vendor long gone, Ashton Tate, had a terrible problem with channel conflict (they would sell direct and undercut a prospect the reseller had cultivated)--as a result, their resellers hated them. They still sold their products since they were so popular (dBa), but were rooting for a competitor to take them out--which happened. It is also a problem if you have no conflict, since it usually indicates that you don't have enough sales coverage--there could be parts of the market you are not covering (missing RFQ's, not knowing about the opportunities, your product is not sold where the customers traffic, etc.).
Direct or Indirect?
The question to go direct, indirect or both is often determined by the following:
Ability to recruit resellers. If you cannot get your product into distribution, or find resellers, the answer is simple, you go direct.
Product type. If you are selling a product that requires a lot of training, installation and support, you may go direct until you get your resellers trained and certified—or, if you have a large enough sales force, you may stay direct. However, if you have enough sales people to only cover the largest customers (10 sales people to cover top 100 telcos, but not enough to cover the middle 5,000 telcos), you may wish to use resellers to cover the middle market—then segment your product line, one for direct and one for resellers.

Market dynamics. As the market technology adoption changes and products that used to require support become easier to use, and customers know what they want—you may go direct (like Dell—it was actually a modest model in the early days, since most users needed more support but became effective)
Price point. High-end premium quality consumer products (such as expensive cookware, the best vacuums, etc.) are sometimes sold direct (and usually person-to-person) since the benefits (which are real, but not always obvious) must be sold. However, this does not mean that high-priced products can’t be sold via the channel (boats, planes, million dollar SFA products, etc.).
Customer requirements. Some customers require mandate a direct relationship with the vendor to ensure their needs are met. In some cases, when an account insists on going direct, the reseller can still earn a bounty for delivering the qualified, pre-sold lead.
Ability to manage resellers. Much of the decision to go direct or indirect is also dependent on the companies ability to understand how the channel functions, come up with a competitive program, and manage the reseller programs and relationships.

Conflicts between channel partners can arise for one or more of the following reasons:
Incompatibility of goals: Organizations can have conflicting goals. A grower may want to grade the produce in order to achieve a price premium for the top quality produce or to develop a brand image, but the wholesaler may only be interested in selling large volumes of undifferentiated produce.
Confusion over roles and rights: For example, a grower may sell part of the produce through local agents and part direct to supermarkets. This may cause conflict because the local agent believes that all sales should go through him/her.
Differences in perceptions: Among the many potential differences in perceptions, which can result in conflict, are: who the customer is; what the market wants; the objectives of other channel members in participating in the market; and the role which other channel members play in helping the organization achieve its own objectives.

Members of a distribution channel can also differ in how they perceive themselves. There is an argument as to whether the ‘distribution channel’ is more than an abstract academic concept. Whilst manufacturers and producers may think in terms of a distribution system, intermediaries do not necessarily see themselves as part of some other party’s ‘system’, but instead consider themselves as independent operators. If intermediaries do lack a systems orientation, then there are additional prospects of conflict since they will be,
naturally, reluctant to compromise their own interests in deference to those of the distribution system as a whole.

Degree of interdependence:

The greater the degree of interdependence between two members of the distribution channel, the greater the potential for conflict. This is because the actions of one directly impinge upon the performance of the other. This is defined as tension/clashes between channel members as a result of perceived unfairness:

- Vertical conflict arises when there is a clash of interests between members at two different levels (like wholesaler and retailer).
- Horizontal conflict is between members at the same level - Retailer A Vs. Retailer B.
- Conflict can be caused by unfair manufacturer policies, a few “rotten” apples, partisanship etc.
- Conflict can be potentially dangerous and can snowball
- McDonald’s franchisees for instance; if care is not taken, the grumbles might become a roar however, a little conflict is good.
- Manufacturers must be fair Channel Cooperation, Conflict & Competition Channel coordination occurs when channel members are brought together to advance the goals of the channel, as opposed to their own potentially incompatible goals.
- Channel conflict is generated when one channel member’s actions prevents the channel from achieving its goal.

Recognize the Potential

Of all the factors, the most common source of channel conflict relates to pricing. It is important that the producer creates the foundation for a pricing structure where each member is able to make a profit from the value they bring to the marketing channel process. Each member’s price must reflect his or her role within the channel. For example, if a retailer is able to purchase directly from the producer at a cost equal or less than what they buy from their distributor, channel conflict will occur.

Other sources of channel conflict may result from goal incompatibility, poorly defined roles and rights, perceptual differences, and interdependent relationships. All of these factors must be taken into consideration, addressed when necessary, and "managed" whenever possible.

The member that has the greatest control—and that may not be the producer—is in the best position to influence the channel.

Types of conflict & competition

**Vertical** channel conflict exists when there is conflict between different levels within the same channel.

**Horizontal** channel conflict exists when there is conflict between members at the same level within the channel.

**Multichannel** conflict exists when the manufacturer has established two or more channels that compete with each other in selling to the same mkt.
Causes of channel conflict

- Goal incompatibility
- Unclear roles & rights
- Differences in perception
- Intermediaries' great dependence on the manufacturer
- One major cause is goal incompatibility.
- Some conflict arises from unclear roles and rights.
- Conflicts can also stem from differences in perception.
- Conflict might additionally arise because of the intermediary's dependence on the manufacturer
- A few of the causes that can give rise to conflict in marketing channels are roles, perceptions, expectations, and communication.

Roles
The behavior of individual channel members must be integrated with the needs of the entire channel system to achieve performance of the marketing task. Because roles are a means of integration and coordination, role deviance is likely to be a major cause of channel conflict. Each role in the channel represents a normative model of conduct which defines the expected contribution of the unit occupying the position to the achievement of the system's task.

Perceptions
Perception is the process by which an individual selects and interprets environmental stimuli. Decision makers within distribution channels are likely to have unique perceptions of reality based upon predispositions, attitudes, or values which, in turn, are determined by their roles, personality attributes, and the numerous environmental conditions facing them. Thus difference in perception of the same situation by channel members is likely to produce conflict.

Expectations
Differences in information availability, in information processing capacities, and in experience may often generate different expectations among channel members regarding potential states of nature, their probabilities of occurrence, and the accompanying payoffs of specific strategies. Differences in expectations may cause conflict among channel members.

Communication
Communication, like roles, is a means of coordinating the behavior of system components. Ineffective communication leads to uncoordinated behavior which is likely to precipitate conflict.

Managing channel conflict

- Some channel conflict can be constructive. It can lead to more dynamic adaptation to a changing environment. But too much is dysfunctional.
- Perhaps the most important mechanism is the adoption of superordinate goals. Working closely together might help them eliminate or neutralize the threat.
- Exchange of persons between two or more channel levels is useful.
- Cooptation is an effort by one organization to win support of the leaders of another organization by including them in advisory councils, boards of directors, etc.
- Encouraging joint membership in & between trade associations.
> When conflict is chronic, the parties may have to resort to diplomacy, mediation or arbitration.
> The challenge is not to eliminate conflict but to manage it better. There are several mechanisms for effective conflict management. One is the adoption of superordinate goals.
> Channel members come to an agreement on the fundamental goal they are jointly seeking.
> Much can be accomplished by encouraging joint membership in and between trade associations.
> When conflict is chronic or acute, the parties may have to resort to: a. Diplomacy b. Mediation c. Arbitration d. Lawsuits

**CONSEQUENCES OF CHANNEL CONFLICT**

Conflict produces change. It precipitates behavior which disrupts the stability of the system. A conflict clearly has destructive consequences if the participants in it are dissatisfied with the outcomes and members feel they have lost as a result of the conflict. Similarly, a conflict can have productive consequences if the participants are all satisfied with their outcomes and feel that they have gained as a result of the conflict. Thus, satisfaction or dissatisfaction on the part of the channel members involved in the conflict is a measure of whether the conflict is constructive or destructive. Channel member satisfaction is related to how the channel member actually perceives the conflict situation. For example, the manufacturer's viewpoint may be very different from the retailer's viewpoint. Satisfaction is therefore a key construct to long-run channel viability. Coercive power sources (punishments) would tend to increase conflict and reduce satisfaction on the part of the channel members subject to them, while noncoercive sources (rewards) would tend to reduce conflict and increase satisfaction on the part of the channel members subject to them.

Conflict may also contribute to creating more effective and efficient channel systems. The emergence of vertically integrated chains in independent retailers' task environments have caused these retailers to seek larger functional discounts in order to be able to reduce prices in line with chain prices. Suppliers have, generally, been unwilling or unable to respond to these retailers' needs for a greater discount, thus producing a conflict situation. The resolution has been, in some cases, the purposive banding together of retailers into retailer cooperatives, thus creating new, more potent distribution systems than the ones to which they previously belonged.

**Distribution Channel Conflicts**

**Is there any difference between channel conflict and channel competition?**

The main difference between these two terms is the consequences of the new competition. What I understand from the texts is that the channel conflict is derived from the channel competition but this last not necessarily has to end in a conflict.

So, the channel competition is when one channel serves customers that are already served by other channel but in different situations and offering different value proposition; so there is a gain with the new channel operation.
And the channel conflict occurs when one channel targets segmented customers that are already served by other channel, so the already existing one due to the weakening is bounded to stop its activity; being the manufacturer who suffers the main impact. Clear examples of these are: For the competition, the bending machines in the streets, which serve same customers than retailers but in other situations, both are complementary. And for the conflict, when offering the product through established channel the manufacturer settles a new direct channel to reach the end user annulling the first one.

Channel conflicts are inevitable but not all are drastically dangerous. Most of them can be avoided if the threats are well defined. Not every new channel is meant to end in a conflict, and analyzing the market situation and the customer’s preferences helps to avoid them. Manufacturer has to be smart enough to understand that sometimes will have to give up a traditional or existing channel for the benefit of a new one due to a shift in the market and leading to avoid the conflict. Anyway, some conflicts can appear along the time, and managing them it’s all about analyzing and making decisions.

NEGOTIATION CAN BE USED TO TURN CONFLICT INTO POSITIVE CHANNEL OUTCOMES

Conflict resolution strategies can be divided into five broad types: negotiation, problem-solving strategies, persuasive mechanisms, legalistic strategies, and climate management. The success with which channel conflicts are resolved often depends upon negotiation. Negotiation involves mutual discussions aimed at resolving conflict. It is a fact of marketing life that should be mastered rather than feared. Boundary personnel should continuously consider the impact that their negotiating strategies will have on channel relationships. Negotiating strategies should not be selected until after channel members have evaluated what they seek for their relationship’s future.

Channel members that use predatory negotiation strategies would consider the idea of relationship-sustaining bargaining sessions unsophisticated or weak. Predatory negotiators try to grab as much as possible by giving the other as little as possible. Channel members who are willing to lose, conceal information, or stand by commitments to accept only favorable settlements generally prevail. By contrast, symbiotic negotiation strategies feature attempts to create mutual value through a process of trade-offs and bargaining. The prevailing atmosphere is, ‘I will help you if you help me.’ Open submission strategies involve one channel member’s concessions to another on all but the barest aspects of the issue in conflict. Such actions might be taken to build a more productive relationship. Joint gains can be achieved through win–win strategies. Here, participants seek to avoid behaviors that would worsen their relationship. Behaviors that would increase the substantive elements of the issue under negotiation are actively sought out.

Channel parties should base their negotiations on substance. This involves (1) separating people from problems, (2) focusing on needs rather than positions, (3) developing options
for mutual gains, and (4) using objective criteria. Symbiotic strategies designed to create mutual value through cooperation and collaboration are diametrically opposed to predatory strategies intended to claim value. Using negotiating strategies for claiming value generally blocks its creation and makes one susceptible to predatory negotiation strategies. When attempting to resolve conflicts through negotiation, each party should do their homework, deal from the top of the deck, remember that quitters never win and the importance of a positive attitude, and strive to build bridges rather than walls.

Problems routinely arise in channels. A problem-solving strategy is a plan of action based on a channel member's goals or objectives and its analysis of the situation. One problem-solving strategy is logrolling, in which each party identifies its priorities and offers concessions on those issues they view as less significant. Another involves compromise, wherein conflicts are resolved by establishing a middle ground based on the initial positions of each party. A third problem-solving strategy involves aggressive, one-sided attempts to solve problems by threats, persuasive arguments, or punishments. Once negotiation and problem-solving efforts establish open lines of communication, the real process of conflict resolution can begin. Much of that work involves persuasion. The act of persuasion implies that one channel member has influenced another member's behavior, with those behaviors relating to a course of action sought by the persuader. But persuasion is not something one channel member does to other channel members. Persuasion is done with others. It involves a cooperative effort, and a process of give and take.

Arbitration and settlements are legalistic strategies aimed at gaining compliance or a solution to an otherwise unresolvable problem. Either method should only be used as a final option. Their use suggests that a solution to the problem could not be worked out through other, more harmonious procedures administered through normal marketing channels. Serious disputes in channel relationships usually do not pop up overnight. Mindful of this, marketers should try to adopt long-run views of how best to handle conflict in channel settings. Perhaps the best way to achieve this is by shaping the channel climate in ways that contribute to the development of trust between the channel members. The use of positive problem-solving and persuasion behaviors is then much more likely.

CONCLUSIONS
Conflict usually produces behavior in response to its inherent frustration. The type of channel conflict prevailing in a distributive system and its causes have to be analyzed before the conflict can be effectively resolved. By reducing or eliminating the actual cause of the conflict, the level and intensity of intrachannel conflicts can be reduced substantially before resources are spent on resolving structural differences among channel members.

The concept of conflict describes situations where the desires of specific components within a given channel system are not sufficiently integrated. Marketing researchers have focused primarily on developing conceptual frameworks describing intrachannel conflicts. Intrachannel conflicts can be constructive or destructive. Depending on the nature and type of conflict, intrachannel conflicts can be resolved by explicit channel strategies designed to eliminate differences in perceptions and knowledge.

1.24 CHANNEL PARTNERING (CHANNEL CO OPERATION)
"THE JOINT EFFORT OF ALL CHANNEL MEMBERS TO CREATE A SUPPLY CHAIN THAT SERVES CUSTOMERS AND CREATES A COMPETITIVE ADVANTAGE."
CHANNEL PARTNER
Channel partners sell products and services on behalf of the brand owner to other businesses or customers. They may resell the product "as is," or they may add value to the product by enhancing it or embedding it into their own products and with complementary services or applications. They also go by a number of different names—for example, in financial services and insurance, channel partners are brokers or agents; in retail and distribution, they are often called dealers or wholesalers.

Channel Partner Recruitment
Companies count on their channel partnerships to maximize profits, extend market penetration, expand into new markets, reduce sales costs and help customers achieve their full business potential. Recruiting the right business partners is the key to developing or expanding a successful channel program.

Recruitment Criteria--
Establishing clear parameters that define the criteria for identifying, qualifying and recruiting new partners will ensure that the partners that are targeted for recruitment possess the desired competencies and business models you are seeking. The following is a sample of categories for consideration when developing the criteria
and parameters for recruiting new partners.
- Minimum size of the company
- Number of years in business
- Geographic coverage
- Primary markets of focus
- Specific vertical market expertise
- Minimum value add requirements
- Size of companies they sell to: very small, small, medium, large enterprise
- Minimum number of sales and technical personnel
- Specific technical certifications
- Primary and secondary sources of revenue

Channel Partnerships Defined
We define a channel partnership as an ongoing, nonexclusive relationship between a retailer and an independent supplier, in which the parties agree on objectives, policies, and procedures for ordering and physically distributing the supplier's products. Partnerships are distinguished from vertically integrated systems in which retailing and manufacturing or importing are under common ownership and control. Partnerships are similar in some ways to franchise systems, but in the latter a single dominant supplier has an exclusive relationship with retail outlets.

FORMERLY ADVERSARIAL RELATIONSHIPS BETWEEN RETAILERS AND THEIR SUPPLIERS ARE GIVING WAY TO COOPERATIVE PARTNERSHIPS IN WHICH both try to improve merchandise and information flow in the distribution channel system. By cooperating, retailers and suppliers can speed up the replenishment of inventories, improve customer service, reduce the need for markdowns, and cut the cost of bringing goods to the customer.
Growth of Channel Partnerships

A primary reason for the growth of channel partnerships has been the increasing availability and reliability, and the declining costs, of digital information and communication technologies. Key technologies for implementing partnerships include bar coding of merchandise, scanning at the point of sale and elsewhere, electronic data interchange (EDI), and database management. Another factor facilitating partnerships has been the adoption of industry standards for product identification and data communication. Competitive pressures have motivated managements of retail and supplier firms to use information technologies. These pressures include the growth of vertically integrated specialty chains such as The Limited; the growth of imports, especially in the apparel field; and competition among different retail store "formats," especially in food distribution.

Requirements for Successful Partnerships

Most of today's channel partnerships are of recent origin; consequently little is known about how relationships between partners evolve over time. Experiences to date do, however, show some of the requirements for success in partnerships. These include:

- Adequate technologies, especially those needed for bar coding, scanning, and EDI.
- Support by top management in both retailer and supplier firms.
- Adjustment in performance measures and reward systems for retail buyers and supplier salespeople.
- Agreement on objectives for a partnership and periodic review of actual results. Relevant measures include inventory turnover, shipment accuracy, order lead times, incidence of out-of-stock conditions, and extent of markdowns in retail selling prices, among others.

The partnership approach appears to be broadly applicable to many, if not most, types of retailing and product classes. As the use of partnerships grows, both retailers and suppliers may increase their reliance on a few major vendors and accounts, respectively.

Regardless of the locus of power, channel members rely heavily on one another. Even the most powerful manufacturers depend on dealers to sell their products; even the most powerful retailers require the products provided by the suppliers. In sharp contrast to the adversarial relationships of the past between buyers and sellers, contemporary management thought emphasizes the development of close working partnerships among channel members. Channel partnering or channel co-operation is the joint effort of all channel members to create a supply chain that serves customer and creates a competitive advantage. Channel partnering is vital if each member is to gain something from other members. By co-operating, retailers, wholesalers, manufacturers and suppliers can speed up inventory replenishment, improve customer service and reduce the total cost of the marketing channel.

Channel alliances and partnerships help supply chain managers create the parallel of material and information required to leverage the supply chain's intellectual, material and marketing resources. The rapid growth in channel partnering is due to new enabling technology and the need to lower cost. Collaborating channel partners meet the need of consumers more effectively by ensuring that the right products are available at the right time and for a lower cost, thus, boosting sales and profits. Forced to become more efficient, many companies are turning formerly adversarial relationships into partnerships.
Areas for Further Research

Research should be done to determine what kinds of partnerships are most likely to survive for extended time periods and which ones yield the greatest benefits to the parties involved. Partnership performance could be related to such factors as retailer vs. vendor management of replenishment, organizational arrangements, and number of vendors in a product category. Perhaps the most important area for future research will be that of assessing the impact of partnerships on overall channel performance.

1.25 CHANNEL LEADERSHIP

Channel leadership behavior includes activities performed by a distribution channel member to influence the marketing policies and strategies of other channel members for the purpose of controlling various aspects of channel operations. Depending on the nature of the marketing channel and the product, the manufacturer, the wholesaler or the retailer can assume the role of channel leader. The level of intra channel conflict may, however, depend in part on how the channel leader utilizes power resources; it may depend on the style of leadership. Style of leadership focuses on actual leader behavior, what the leader does and how it is done.

Leadership styles can be broadly classified into three types—participative, supportive and directive. A participative leader consults with subordinates, and considers their suggestions before making a decision. Supportive leadership considers subordinates’ needs, displays concern for subordinates’ well-being and creates a friendly and pleasant task environment. A directive leader organizes and defines the task environment, assigns the necessary functions to be performed, establishes communication networks and evaluates work group performance.

The higher the level of participative or supportive leadership exhibited by a channel leader, the lower the level of intra channel conflict. They also hypothesized that the higher the level of directive leadership exhibited by the channel leader, lower the level of intra channel conflict.

CHANNEL CLIMATE

Going it alone in business is difficult at best, implying that participation in channel relationships is the best way to go for most marketers. Still, conflict is likely between channel intermediaries. Much of the opportunity to remediate such conflicts lies within a channel’s climate. This sense of a climate emerges from the naturally occurring interactions of the various boundary personnel who represent the firms operating within the channel. Channel climate may be defined as the bundle of characteristics of the channel organization reflected in the descriptions channel members give of the policies, practices, and consideration that exist in their channel environment. Consideration is behavior that reflects mutual respect, trust, support, friendship, and a concern for the welfare of channel partners. Workable relationships with channel partners are a critical asset for any channel member. A cooperative climate is reflected in the members’ willingness to work or act together in pursuit of some common purpose. A coordinated climate is evident when the members are working or acting together in a harmonious or synchronized fashion.
pursuit of interfirm cooperation and coordination represents a strategic response to conditions of uncertainty and dependence.

1.26 CHANNEL RELATIONSHIP

While the marketer who uses channel members to sell consumer products has access to information for their immediate customers (e.g., resellers) they often do not have access to sales and customer behavior information controlled by the party selling to the final consumer (e.g., retailer). Knowing the demand patterns at the final consumer level can give marketers good insight into how the reseller may order. Developing strong relationships with the holder of consumer information can result in the reseller sharing this information with the marketer. In fact, as we noted in the Distribution Decisions tutorial, some retailers allow marketers direct access to real-time, store-level inventory information so the marketer can monitor how products are selling in stores and be in a position to respond quickly if inventory needs change.

Establishing Channel Relationships

Since channel members must be convinced to handle a marketer’s product it makes sense to consider channel partner’s needs in the same way the marketer considers the final user’s needs. However, the needs of channel members are much different than those of the final customer. As we noted in the Business Buying Behavior tutorial, resellers seek products of interest to the reseller’s customers but are also concerned with many other issues such as:

**Delivery** — Resellers want the product delivered on-time and in good condition in order to meet customer demand and avoid inventory out-of-stocks.

**Profit Margin** — Resellers are in business to make money so a key factor in their decision to handle a product is how much money they will make on each product sold. They expect that the difference (i.e., margin) between their cost for acquiring the product from a supplier and the price they charge to sell the product to their customers will be sufficient to meet their profit objectives.

**Other incentives** — Besides profit margin, resellers may want other incentives to entice them especially if they are required to give extra effort selling the product. These incentives may be in the form of additional free products or even bonuses (e.g., bonus, free trips) for achieving sales goals.

**Packaging** — Resellers want to handle products as easily as possible and want their suppliers to ship and sell products in packages that fit within their system. For example, products may need to be a certain size or design in order to fit on a store’s shelf, or the shipping package must fit within the reseller’s warehouse or receiving dock space. Also, many resellers are now requiring marketers to consider adding identification tags to products (e.g., RFID tags) to allow for easier inventory tracking when the product is received and also when it is sold.

**Training** — Some products require the reseller to have strong knowledge of the product including demonstrating the product to customers. Marketers must consider offering training to resellers to ensure the reseller has the knowledge to present the product accurately.
Promotional Help – Resellers often seek additional help from the product supplier to promote the product to customers. Such help may come in the form of funding for advertisements, point-of-purchase product materials, or in-store demonstrations.

Cultivating Positive Channel Relationships

Cultivating positive channel relationships is a matter of serious concern. The five steps that are involved in developing long-term channel relationships are recruiting, screening, selecting, motivating, and securing.

Recruitment involves those plans and actions aimed at actively soliciting participation of a new channel member. When recruiting prospective channel partners, the recruiting organization should consider how its needs relate to the prospects’ qualifications and needs, and vice versa; communicate honestly about the constraints and realities of the channel role; and learn all it can about the prospects’ expectations and be prepared to fulfill them.

Not every firm that is recruited is eventually selected for channel membership. In fact, most firms are screened out as inappropriate candidates. Screening is an inherently negative process in that recruiting organizations are seeking reasons to reject rather than accept prospective partners. When screening prospective channel members, recruiters should consider their market segments and products, fit the prospects’ strengths and competencies into their products’ life cycle, remember that bigger is not always better, and consider the support that is likely to be required by the various prospects.

Once prospects have been recruited and screened, the right partner is selected from among this smaller pool. Various criteria should be considered during this final evaluation of channel member prospects, including sales factors, product factors, experience factors, administrative factors, and risk factors. Distribution functions, service functions, intelligence-gathering functions, and quality of relationships should also be considered as new channel partners are selected.

Recruiting organizations usually have only limited control over their independent intermediaries after they come on board the channel. Special measures – including Distributor Advisory Councils, personal contact, assurances of future relationships, threats, and/or the provision of adequate support – are often required to motivate partners to act in the recruiting organization’s best interests.

Finally, securing recruits for a positive, long-term relationship requires developing a partnership between the channel partners. Boundary personnel must be able to identify and respond to their new partner’s unique needs and problems. One way to do this is to recognize that, just as any other living thing, relationships pass through a life cycle of birth, growth and maturity, and death. Each stage has different needs and effects on the relationship. In the end, a relationship is what the two parties make of it. The two primary factors are the total package of benefits the partners achieve from it and the level of customer service involved.

MARKETING CHANNELS RELATE TO THE CHANNEL RELATIONSHIP MODLE (CRM)

A Channel Relationship Model (CRM) serves as a framework for presenting the material addressed throughout the text. Three fundamental interactions are shown in the CRM. The first occurs within the marketing organization. The second develops between marketing
organizations. The last interaction unfolds between marketing organizations and their environments. Through the CRM, the role of channel environments, channel climates, and interaction processes in fostering business relationships is investigated. The CRM perspective will ultimately enable you to better understand how exchange partners can achieve their strategic aims through interacting in marketing channels and dynamic marketplaces.

2. PHYSICAL DISTRIBUTION (MARKETING LOGISTICS)

2.1 INTRODUCTION

Domschke and Schield thus emphasise: “Distribution encompasses a system of all activities that are related to the transfer of economic goods between manufacturers and consumers. It includes such a coordinated preparation of manufactured goods according to their type and volume, space and time, so that supply deadlines can be met (order fulfillment) or estimated demand can be efficiently satisfied (when producing for an anonymous market)”.

Distribution systems are usually divided into:
(a) acquisition distribution system
(b) logistic, i.e. physical distribution system.
According to this author, acquisition distribution system management includes the management of distribution routes, i.e. distribution channels. Logistic distribution system is focused on bridging the space and time by transportation and storage, as well as order processing and shipment, supply logistics, i.e. the movement of materials. The term “distribution channels” can at the moment be replaced by the term “marketing channel”. “Marketing channel” as a more complex term has been used in the USA since the 1970s, because the intermediaries include not only those who participate in the physical flow of a product from the manufacturer to the end user, but also those that have a role in the transfer of product ownership, as well as other intermediary institutions that participate in the value distribution from production to consumption.

Therefore, it is assumed that there are three types of marketing channels (Kotler & Keller, 2008, 26): communication channels, distribution channels and service channels.
Distribution or marketing channels are systems of mutually dependent organizations included in the process of making goods or services available for use or consumption. Moreover, a marketing channel is “the external contractual organization that management operates to achieve its distribution objectives”.
There follow some more recent concepts of the distribution channel:
Channel of distribution – The route along which goods and services travel from producer/manufacturer through marketing intermediaries (such as wholesalers, distributors, and retailers) to the final user. Channels of distribution provide downstream value by bringing finished products to end users. This flow may involve the physical movement of the product or simply the transfer of title to it. Also known as a distribution
channel, a distribution chain, a distribution pipeline, a supply chain, a marketing channel, a market channel, and a trade channel.

Similarly, distribution channel is defined by Hill: "Distribution channel – one or more companies or individuals who participate in the flow of goods and services from the manufacturer to the final user or consumer".

Nevertheless, other types of flows should not be neglected in distribution channels, so that the following definition is also possible: "Channel of distribution consist of one or more companies or individuals who participate in the flow of goods, services, information, and finances from the producer to the final user or consumer." (Coyle, Bardi, & Langley, 2003, 106). These are various routes that products or services use after their production until they are purchased and used by end users. Therefore, marketing channels, i.e. distribution channels are all those organizations that a product has to go through between its production and consumption.

In the so-called consumer marketing channels, the marketing channel system usually includes the following operators: producer/manufacturer, wholesaler, intermediary, and retailer. On the other hand, when it comes to business marketing channels, the following are included: producer/manufacturer, representative or sales subsidiary of manufacturer, business distributor and business client.

Different authors describe the possible options of marketing, i.e. distribution channels in different ways. Nevertheless, the basic division is into direct and indirect channels. In direct channels, producers/manufacturers sell their goods directly to individual consumers, while indirect channels include a trading company as well. An indirect marketing channel can be both short and long. Only one trading company is included in the short channel (usually, it is a retail company). In the long channel, there are two or more intermediaries (wholesale and retail companies). The tasks involved in planning, implementing, and controlling the physical flow of materials, final goods, and related information from points of origin to points of consumption to meet customer requirements at a profit.

People today place enormous faith in the system of distribution that supplies them with material goods. Consumers are confident that shops will be replenished and seldom enquire how goods find their way onto the retailer’s shelves. Only when the supply of goods is interrupted by, for example, bad weather or industrial disputes does distribution attract much public attention. Most people, therefore, have little appreciation of the scale and complexity of the distributive system. Ever fewer are familiar with the expression physical distribution.

Physical distribution is the set of activities concerned with efficient movement of finished goods from the end of the production operation to the consumer. Physical distribution takes place within numerous wholesaling and retailing distribution channels, and includes such important decision areas as customer service, inventory control, materials handling, protective packaging, order processing, transportation, warehouse site selection, and warehousing. Physical distribution is part of a larger process called "distribution," which includes wholesale and retail marketing, as well the physical movement of products.

In other words, Physical distribution is the collective term for the series of interrelated functions (principally transport, stockholding, storage, goods handling and order processing) involved in the physical transfer of finished goods from producer to consumer, directly or via intermediaries. Some definitions of physical distribution include
the movement of storage of raw materials and semi-finished goods, but the term logistics is more commonly used to describe the complete product flow from raw material to final point of sale.

Physical distribution activities have recently received increasing attention from business managers, including small business owners. This is due in large part to the fact that these functions often represent almost half of the total marketing costs of a product. In fact, research studies indicate that physical distribution costs nationally amount to approximately 20 percent of the country's total gross national product (GNP). These findings have led many small businesses to expand their cost-cutting efforts beyond their historical focus on production to encompass physical distribution activities. The importance of physical distribution is also based on its relevance to customer satisfaction. By storing goods in convenient locations for shipment to wholesalers and retailers, and by creating fast, reliable means of moving the goods, small business owners can help assure continued success in a rapidly changing, competitive global market.

Bowersox et al. [1], in their well-known book on physical distribution management, stress the underlying importance of overall distribution channel behavior to PDM: “At the outset it is clear that the distribution channel is of fundamental importance to a treatment of physical distribution, because the channel is the arena within which marketing and logistics culminate into consumer transactions. Therefore, for a proper understanding of physical distribution, one should develop a sound insight into the overall nature of total distribution channels”.

Gaedeke and Tootelian define physical distribution as:
“...all activities involved in planning, implementing, and controlling the physical flow of raw materials, in-process inventory, and finished goods from point-of-origin to point-of-consumption. The main activities include customer service, inventory control, material handling, transportation, warehousing and storage.”

An earlier resource pack described the decisions that must be taken when a company organises a channel or network of intermediaries who take responsibility for the management of goods as they move from the producer to the consumer. Each channel member must be carefully selected and the company must decide what type of relationship it seeks with each of its intermediate partners. Having established such a network, the organisation must next consider how these goods can be efficiently transferred, in the physical sense, from the place of manufacture to the place of consumption.

Physical distribution management (PDM) is concerned with ensuring the product is in the right place at the right time.

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

As marketing analysis became increasingly sophisticated, managers became more aware of the costs of physical distribution. Whilst the military must win battles, the primary aim of business is to provide customer satisfaction in a manner that results in profit for the company. Business logistical techniques can be applied to PDM so that costs and customer satisfaction are optimised. There is little point in making large savings in the cost of distribution if, in the long run, sales are lost because of customer dissatisfaction. Similarly, it does not make economic sense to provide a level of service that is not really required by the customer and leads to an erosion of profits. This cost/service balance is a basic dilemma that faces physical distribution managers.

A final reason for the growing importance of PDM as a marketing function is the increasingly demanding nature of the business environment. In the past it was not uncommon for companies to hold large inventories of raw materials and components. Although industries and individual firms differ widely in their stockholding policies, nowadays, stock levels are kept to a minimum wherever possible. Holding stock is wasting working capital for it is not earning money for the company. A more financially analytical approach by management has combined to move the responsibility for carrying stock onto the supplier and away from the customer. Gilbert and Strebel (1989) pointed out that this has a 'domino' effect throughout the marketing channel, with each member putting pressure on the next to provide higher levels of service.

Logistical issues facing physical distribution managers today is the increasing application by customers of just-in-time management techniques or lean manufacturing. Hutchins (1988) stresses that companies who demand 'JIT' service from their suppliers carry only a few hours' stock of material and components and rely totally on supplier service to keep their production running. This demanding distribution system is supported by company expediters whose task it is to 'chase' the progress of orders and deliveries, not only with immediate suppliers, but right along the chain of supply (called 'supply chain integration'). Lean manufacturing has been widely adopted throughout the automotive industry where companies possess the necessary purchasing power to impose such delivery conditions on their suppliers. Their large purchasing power also necessitates stringent financial controls, and huge financial savings can be made in the reduction or even elimination of stockholding costs where this method of manufacturing is employed.

To think of the logistical process merely in terms of transportation is much too narrow a view. Physical distribution management (PDM) is concerned with the flow of goods from the receipt of an order until the goods are delivered to the customer. In addition to transportation, PDM involves close liaison with production planning, purchasing, order processing, material control and warehousing. All these areas must be managed so that they interact efficiently with each other to provide the level of service that the customer demands and at a cost that the company can afford.

Physical Distribution (PD) while given a great deal of attention in the marketing literature during the past decade, has not been examined explicitly in terms of how it interfaces with channel management. Yet an understanding of PD-channel management interfaces is
necessary if the marketer is to play a role in shaping the firm's PD strategy so that it is more likely to foster channel member cooperation rather than conflict. PD interfaces with channel management in at least four areas: (1) defining channel member service standards, (2) making sure a proposed PD program meets these standards, (3) the selling of the program to the channel members, and (4) monitoring the program once instituted to determine if it contributes to fostering channel member cooperation. Regardless of how the manufacturer treats the PD function from the stand-point of his own internal organization structure, there is no escaping these PD-channel management interfaces. Consequently, the marketer who is concerned with the channels aspects of the manufacturer's overall marketing strategy has an important role to play in influencing the firm's PD strategy so that it helps to enhance channel member cooperation.

PDM is concerned with ensuring that the individual efforts that go to make up the distributive function, are optimised so that a common objective is realised. This is called the 'systems approach' to distribution management and a major feature of PDM is that these functions be integrated.

Because PDM has a well-defined scientific basis, this chapter presents some of the analytical methods which management uses to assist in the development of an efficient logistics system. There are two central themes that should be taken into account:

The success of an efficient distribution system relies on integration of effort. An overall service objective can be achieved, even though it may appear that some individual components of the system are not performing at maximum efficiency.

It is never possible to provide maximum service at a minimum cost. The higher the level of service required by the customer, the higher the cost. Having decided on the necessary level of service, a company must then consider ways of minimising costs, which should never be at the expense of, or result in, a reduction of the predetermined service level.

Thus, it is suggested that physical distribution has two components: materials management and marketing logistics. Materials management is concerned with physical supply operations such as procurement and the storage and movement of raw materials to and through processing into a finished product. Marketing logistics deals with the transfer of finished goods to intermediaries, final buyers and end-users.

2.2 PHYSICAL DISTRIBUTION & MARKETING LOGISTICS

In today's global marketplace, selling a product is sometimes easier than getting it to customers. Companies today are finding it extremely difficult to maintain their competitive advantage over others purely on the basis of innovative strategies pertaining to the product, price, place, or promotion. Companies must decide on the best way to store, handle, and move their products and services so that they are available to customers in the right assortments, at the right time, and in the right place. Since competitors can easily imitate each of these competitive advantages, the emphasis on building a sustainable competitive advantage has made companies focus their attention on logistics, which provides such a means for companies to successfully differentiate themselves from competing firms. Logistics is a complex process by which companies transport products, parts, and materials from the place where they are manufactured to the place where they are required. Logistics effectiveness has a major impact on both customer satisfaction and company costs. Here we
consider the nature and importance of marketing logistics, goals of the logistics system, major logistics functions, and the need for integrated logistics management.

2.21 NATURE AND IMPORTANCE OF PHYSICAL DISTRIBUTION & MARKETING LOGISTICS

To some managers, physical distribution means only trucks and warehouses. But modern logistics is much more than this. Physical distribution—or marketing logistics—involves planning, implementing, and controlling the physical flow of materials, final goods, and related information from points of origin to points of consumption to meet customer requirements at a profit. In short, it involves getting the right product to the right customer in the right place at the right time.

Traditional physical distribution typically started with products at the plant and then tried to find low-cost solutions to get them to customers. However, today’s marketers prefer market logistics thinking, which starts with the marketplace and works backward to the factory. Logistics addresses not only the problem of outbound distribution (moving products from the factory to customers) but also the problem of inbound distribution (moving products and materials from suppliers to the factory). It involves the management of entire supply chains, value-added flows from suppliers to final users. Thus, the logistics manager’s task is to coordinate activities of suppliers, purchasing agents, marketers, channel members, and customers. These activities include forecasting, information systems, purchasing, production planning, order processing, inventory, warehousing, and transportation planning.

Companies today are placing greater emphasis on logistics for several reasons. First, customer service and satisfaction have become the cornerstones of marketing strategy, and distribution is an important customer service element. More and more, companies are finding that they can attract and keep customers by giving better service or lower prices through better physical distribution.

Second, logistics is a major cost element for most companies. According to one study, in a recent year American companies “spent $670 billion—a gaping 10.5 percent of gross domestic product—to wrap, bundle, load, unload, sort, reload, and transport goods.” About 15 percent of an average product’s price is accounted for by shipping and transport alone. Poor physical distribution decisions result in high costs. Improvements in physical distribution efficiency can yield tremendous cost savings for both the company and its customers.

Third, the explosion in product variety has created a need for improved logistics management. For example, in 1911 the typical A&P grocery store carried only 270 items. The store manager could keep track of this inventory on about 10 pages of notebook paper stuffed in a shirt pocket. Today, the average A&P carries a bewildering stock of more than 16,700 items. Ordering, shipping, stocking, and controlling such a variety of products presents a sizable logistics challenge. Effective logistics management requires that the actual status of goods and services be communicated in real-time to the various groups of people involved in the logistics process. This helps logistics service providers to improve their service by keeping a closer watch on inventory and taking the steps necessary to avoid losing customers. Communication using satellite technology and sophisticated devices makes it possible for the various players involved in the logistics chain of processes to
remain in constant communication with one another and with the end customer. Technology is playing a key role in communication as well as in other processes in the logistics function and helping logistics firms to attain a competitive advantage. The various types of technology being implemented in logistics activities include Electronic Data Interchange, artificial intelligence, expert systems, communication technology in the form of satellite and wireless communication, and bar coding and scanning.

It is necessary to streamline the logistics process to maintain the efficiency of the logistics network. In addition to integrating information technology and advanced logistical approaches into their business operations, businesses are beginning to realize the need to focus on their logistics strategy in order to efficiently maintain their supply chain capabilities. A logistics strategy examines logistical operations and activities and provides logistical firms with a sense of unity, direction, and purpose. It helps firms involved in the business to attain a competitive advantage over others by allowing them to promptly respond to the opportunities and threats in the business environment.

In their efforts at logistical management, firms face several challenges, which may be local or global in their scope. While the need for integration of logistics activities and lack of qualified personnel are the primary challenges faced in logistics management at the local level, the global challenges include challenges arising due to greater distance, modes of transport, documentation, coordination of intermediaries, cultural and political differences, globalization, need for flexibility and speed, need to integrate supply chain activities, and challenges due to emphasis of companies on green logistics.

Finally, improvements in information technology have created opportunities for major gains in distribution efficiency. The increased use of computers, point-of-sale scanners, uniform product codes, satellite tracking, electronic data interchange (EDI), and electronic funds transfer (EFT) has allowed companies to create advanced systems for order processing, inventory control and handling, and transportation routing and scheduling.

**Goals of the Logistics System**

Some companies state their logistics objective as providing maximum customer service at the least cost. Unfortunately, no logistics system can both maximize customer service and minimize distribution costs. Maximum customer service implies rapid delivery, large inventories, flexible assortments, liberal returns policies, and other services—all of which raise distribution costs. In contrast, minimum distribution costs imply slower delivery, smaller inventories, and larger shipping lots—which represent a lower level of overall customer service. The goal of the marketing logistics system should be to provide a targeted level of customer service at the least cost. A company must first research the importance of various distribution services to its customers and then set desired service levels for each segment. The company normally will want to offer at least the same level of service as its competitors do. But the objective is to maximize profits, not sales. Therefore, the company must weigh the benefits of providing higher levels of service against the costs. Some companies offer less service than their competitors and charge a lower price. Other companies offer more service and charge higher prices to cover higher costs.

**Major Logistics Functions**
Given a set of logistics objectives, the company is ready to design a logistics system that will minimize the cost of attaining these objectives. The major logistics functions include order processing, warehousing, inventory management, and transportation.

### 2.22 KINDS OF PHYSICAL DISTRIBUTION

**FIGURE:**

<table>
<thead>
<tr>
<th>Materials Management (Physical supply)</th>
<th>Marketing logistics (Physical distribution)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials components etc.</td>
<td>Order Processing</td>
</tr>
<tr>
<td>Inbound Transportation</td>
<td>Finished goods inventory management</td>
</tr>
<tr>
<td>Receiving</td>
<td>Outbound Transportation</td>
</tr>
<tr>
<td>In-Plant warehousing</td>
<td>Customer service</td>
</tr>
<tr>
<td></td>
<td>Field warehousing</td>
</tr>
<tr>
<td></td>
<td>Shipping</td>
</tr>
</tbody>
</table>

Physical distribution is often viewed as a necessary support system for the organization's marketing programme. However, there is an alternative, and more creative perspective which can be taken and that is to see an efficient physical distribution system as a potent marketing tool in its own right, and one which is capable of creating a competitive advantage for the organization. An organization which is able, for instance, to supply a wide variety of products speedily at specified a time helps reduce the inventory holding costs of the intermediaries being served. Thus the level of interest in the way physical distribution is managed is explained by its potential as a powerful marketing instrument, the opportunity to realize significant savings in marketing costs and by the importance of physical distribution to customer service levels.

The two most important factors when considering physical distribution are:

1. **The time taken for the product to reach the consumer.**
2. **The cost of delivering the product to the consumer.**

Firstly, we do not want the consumer to wait for too much time when he is waiting for the products to reach him. So we want to use the fastest product delivery system we can. But, the problem with doing this is that the faster we try to make the product delivery, the more the cost of product delivery will increase.

Physical distribution (logistics) deals with the efficient movement of a company's product through the channel of distribution. A firm can manufacture a great product, but if it takes 10 months for the product to get from the manufacturer to the retailer (or consumer), the firm will find itself in serious trouble. Do you know that an average grocery product spends about 84 days in the channel? This means that grocery foods are not as fresh as we may think they are. Making the physical distribution process work more efficiently is important.
to marketing. Physical distribution makes up about 10% to 15% of the total cost of a product.

**A System Approach**

Physical distribution can be viewed as a system of components linked together for the efficient movement of products. Small business owners can ask the following questions in addressing these components:

- **Order processing**—How should the orders be handled?
- **Protective packaging and materials handling**—How can efficient methods be developed for handling goods in the factory, warehouse, and transport terminals?
- **Warehousing**—Where will the goods be located? How many warehouses should be utilized?
- **Transportation**—How will the products be shipped?
- **Inventory control**—How much inventory should be maintained at each location?
- **Customer service**—What level of customer service should be provided?

These components are interrelated: decisions made in one area affect the relative efficiency of others. For example, a small business that provides customized personal computers may transport finished products by air rather than by truck, as faster delivery times may allow lower inventory costs, which would more than offset the higher cost of air transport. Viewing physical distribution from a system perspective can be the key to providing a defined level of customer service at the lowest possible cost.

**ORDER PROCESSING—**

Order processing is the first of these stages in the logistical process. The efficiency of order processing has a direct effect on lead times. Orders are received from the sales team through the sales department. Many companies establish regular supply routes that remain relatively stable over a period of time providing that the supplier performs satisfactorily. Very often contracts are drawn up and repeat orders (forming part of the initial contract) are made at regular intervals during the contract period. Taken to its logical conclusion this effectively does away with ordering and leads to what is called 'partnership sourcing'. This is an agreement between the buyer and seller to supply a particular product or commodity as and when required without the necessity of negotiating a new contract every time an order is placed.

Order-processing systems should function quickly and accurately. Other departments in the company need to know as quickly as possible that an order has been placed and the customer must have rapid confirmation of the order’s receipt and the precise delivery time. Even before products are manufactured and sold the level of office efficiency is a major contributor to a company’s image. Incorrect ‘paperwork’ and slow reactions by the sales office are often an unrecognised source of ill-will between buyers and sellers. When buyers review their suppliers, efficiency of order processing is an important factor in their evaluation.

Therefore, once received, orders must be processed quickly and accurately. Both the company and its customers benefit when order processing is carried out efficiently. Most companies now use computerized order-processing systems that speed up the order–shipping–billing cycle. For example, General Electric operates a computer-based system
that, on receipt of a customer's order, checks the customer's credit standing as well as whether and where the items are in stock. The computer then issues an order to ship, bills the customer, updates the inventory records, sends a production order for new stock, and relays the message back to the salesperson that the customer's order is on its way—all in less than 15 seconds.

A good computer system for order processing allows stock levels and delivery schedules to be automatically updated so management can rapidly obtain an accurate view of the sales position. Accuracy is an important objective of order processing as are procedures that are designed to shorten the order processing cycle.

The small business owner is concerned with order processing—another physical distribution function—because it directly affects the ability to meet the customer service standards defined by the owner. If the order processing system is efficient, the owner can avoid the costs of premium transportation or high inventory levels. Order processing varies by industry, but often consists of four major activities: a credit check; recording of the sale, such as crediting a sales representative's commission account; making the appropriate accounting entries; and locating the item, shipping, and adjusting inventory records.

Technological innovations, such as increased use of the Universal Product Code, are contributing to greater efficiency in order processing. Bar code systems give small businesses the ability to route customer orders efficiently and reduce the need for manual handling. The coded information includes all the data necessary to generate customer invoices, thus eliminating the need for repeated keypunching.

Another technological innovation affecting order processing is Electronic Data Interchange. EDI allows computers at two different locations to exchange business documents in machine-readable format, employing strictly-defined industry standards. Purchase orders, invoices, remittance slips, and the like are exchanged electronically, thereby eliminating duplication of data entry, dramatic reductions in data entry errors, and increased speed in procurement cycles.

Orders can be submitted in many ways—by mail or telephone, through salespeople, or via computer and EDI. In some cases, the suppliers might actually generate orders for their customers:

One Kmart quick response program calls for selected suppliers to manage the retailer's inventory replenishment for their products. Kmart transmits daily records of product sales to the vendor, who analyzes the sales information, comes up with an order, and sends it back to Kmart through EDI. Once in Kmart's system, the order is treated as though Kmart itself created it. Says a Kmart executive, "We don't modify the order, and we don't question it. . . . Our relationship with those vendors is such that we trust them to create the type of order that will best meet our inventory needs."

ORDER PROCESSING ARRANGEMENT

Order processing arrangements are now most successfully done electronically and it is important for marketing managers to understand these opportunities from electronic commerce. The steps involved in the ordering process are:

- order entry
- availability of product
credit of customer
✓ picking and packing
✓ verification and dispatch
✓ delivery
✓ invoicing.

Significant improvements are being achieved in order accuracy, reduced paperwork and closer working relationships with partners, which can assist in achieving more cost effective placement.

PACKAGING & HANDLING OF GOODS—

Another important component of a small business physical distribution system is material handling. This comprises all of the activities associated with moving products within a production facility, warehouse, and transportation terminals. One important innovation is known as unitizing—combining as many packages as possible into one load, preferably on a pallet. Unitizing is accomplished with steel bands or shrink wrapping to hold the unit in place. Advantages of this material handling methodology include reduced labor, rapid movement, and minimized damage and pilferage.

A second innovation is containerization—the combining of several unitized loads into one box. Containers that are presented in this manner are often unloaded in fewer than 24 hours, whereas the task could otherwise take days or weeks. This speed allows small export businesses adequate delivery schedules in competitive international markets. In-transit damage is also reduced because individual packages are not handled en route to the purchaser.

FUNCTIONS OF PACKAGING

The various functions of packaging are divided into primary, secondary and tertiary functions. In contrast with the primary functions, which primarily concern the technical nature of the packaging, secondary functions relate to communications. Primary, secondary and tertiary functions are divided into the following sub-functions:

Primary functions

\* Protective function
\* Storage function
\* Loading and transport function

Secondary functions

\* Sales function
\* Promotional function
\* Service function
\* Guarantee function

Tertiary functions

\* Additional function
Protective Function—

The protective function of packaging essentially involves protecting the contents from the environment and vice versa. The inward protective function is intended to ensure full retention of the utility value of the packaged goods. The packaging is thus intended to protect the goods from loss, damage and theft. In addition, packaging must also reliably be able to withstand the many different static and dynamic forces to which it is subjected during transport, handling and storage operations. The goods frequently also require protection from climatic conditions, such as temperature, humidity, precipitation and solar radiation, which may require "inward packaging measures" in addition to any "outward packaging measures". The outward protection provided by the packaging must prevent any environmental degradation by the goods. This requirement is of particular significance in the transport of hazardous materials, with protection of humans being of primary importance. The packaging must furthermore as far as possible prevent any contamination, damage or other negative impact upon the environment and other goods. The inward and outward protective function primarily places demands upon the strength, resistance and leak proof properties of transport packaging.

Storage Function

The packaging materials and packaging containers required for producing packages must be stored in many different locations both before packaging of the goods and once the package contents have been used. Packaging must thus also fulfill a storage function.

Loading and transport function

Convenient goods handling entails designing transport packaging in such a manner that it may be held, lifted, moved, set down and stowed easily, efficiently and safely. Packaging thus has a crucial impact on the efficiency of transport, handling and storage of goods. Packaging should therefore be designed to be easily handled and to permit space-saving storage and stowage. The shape and strength of packages should be such that they may not only be stowed side by side leaving virtually no voids but may also be stowed safely one above the other.

The most efficient method of handling general cargo is to make up cargo units. Packaging should thus always facilitate the formation of cargo units; package dimensions and the masses to be accommodated should where possible be tailored to the dimensions and load-carrying capacity of standard pallets and containers.

Where handling is to be entirely or partially manual, packages must be easy to pick up and must be of a suitably low mass. Heavy goods must be accommodated in packages which are well suited to mechanical handling. Such items of cargo must be forkliftable and be provided with convenient load-bearing lifting points for the lifting gear, with the points being specially marked where necessary (handling marks).

The loading and transport function places requirements upon the external shape of the package, upon the mass of the goods accommodated inside and upon the convenient use of packaging aids. The strength of the package required for stowing goods on top of each other demonstrates the close relationship between the loading and transport function and the
protective function.

Sales function

The purpose of the sales function of a package is to enable or promote the sales process and to make it more efficient.

Promotional function

Promotional material placed on the packaging is intended to attract the potential purchaser's attention and to have a positive impact upon the purchasing decision. Promotional material on packaging plays a particularly important role on sales packaging as it is directly addressed to the consumer. This function is of subordinate significance in transport packaging. While product awareness is indeed generated along the transport chain, excessive promotion also increases the risk of theft.

Service function

The various items of information printed on packaging provide the consumer with details about the contents and use of the particular product. Examples are the nutritional details on yogurt pots or dosage information on medicines. The package may also perform a further function once the contents have been used (e.g. storage container, toy).

Guarantee function

By supplying an undamaged and unblemished package, the manufacturer guarantees that the details on the packaging correspond to the contents. The packaging is therefore the basis for branded goods, consumer protection and product liability. There are legislative requirements which demand that goods be clearly marked with details indicating their nature, composition, weight, quantity and storage life.

Additional function-

The additional function in particular relates to the extent to which the packaging materials or packaging containers may be reused once the package contents have been used. The most significant example is the recycling of paper, paperboard and cardboard packaging as waste paper.

WAREHOUSING

Every company must store its goods while they wait to be sold. A storage function is needed because production and consumption cycles rarely match. For example, Snapper, Toro, and other lawn mower manufacturers must produce all year long and store up their product for the heavy spring and summer buying seasons. The storage function overcomes differences in needed quantities and timing.
A company must decide on how many and what types of warehouses it needs and where they will be located. The company might use either storage warehouses or distribution centers. Storage warehouses store goods for moderate to long periods. Distribution centers are designed to move goods rather than just store them. They are large and highly automated warehouses designed to receive goods from various plants and suppliers, take orders, fill them efficiently, and deliver goods to customers as quickly as possible. Small business owners who require warehousing facilities must decide whether to maintain their own strategically located depot(s), or resort to holding their goods in public warehouses. And those entrepreneurs who go with non-public warehousing must further decide between storage or distribution facilities. A storage warehouse holds products for moderate to long-term periods in an attempt to balance supply and demand for producers and purchasers. They are most often used by small businesses whose products’ supply and demand are seasonal. On the other hand, a distribution warehouse assembles and redistributes products quickly, keeping them on the move as much as possible. Many distribution warehouses physically store goods for fewer than 24 hours before shipping them on to customers.

In contrast to the older, multi-story structures that dot cities around the country, modern warehouses are long, one-story buildings located in suburban and semi-rural settings where land costs are substantially less. These facilities are often located so that their users have easy access to major highways or other transportation options. Single-story construction eliminates the need for installing and maintaining freight elevators, and for accommodating floor load limits. Furthermore, the internal flow of stock runs a straight course rather than up and down multiple levels. The efficient movement of goods involves entry on one side of the building, central storage, and departure out the other end.

Warehousing facilities and equipment technology have improved greatly in recent years. Older, multistoried warehouses with outdated materials-handling methods are facing competition from newer, single-storied automated warehouses with advanced materials-handling systems under the control of a central computer. In these warehouses, only a few employees are necessary. Computers read orders and direct lift trucks, electric hoists, or robots to gather goods, move them to loading docks, and issue invoices. These warehouses have reduced worker injuries, labor costs, theft, and breakage and have improved inventory control. Computer technology for automating warehouses is dropping in price, and thus is increasingly available for small business applications. Sophisticated software translates orders into bar codes and determines the most efficient inventory picking sequence. Order information is keyboarded only once, while labels, bills, and shipping documents are generated automatically. Information reaches hand-held scanners, which warehouse staff members use to fill orders. The advantages of automation include low inventory error rates and high processing speeds.

The functions of warehouses are to provide cost-effective storage, in suitable conditions, for the organization’s products and materials. The existence of a warehouse is justified by the extent to which it contributes to the efficiency and effectiveness of physical distribution functions.
The main warehousing operations are listed in the table below.

**Table - Warehouse operations**

<table>
<thead>
<tr>
<th>Goods Inwards</th>
<th>Warehouse Storage</th>
<th>Order Picking</th>
<th>Goods Despatching</th>
</tr>
</thead>
<tbody>
<tr>
<td>receiving - unloading and temporary hold</td>
<td>ensuring stock rotation</td>
<td>marshalling or assembling goods by customer or vehicle load</td>
<td>provision of suitable loading areas</td>
</tr>
<tr>
<td>checking - right goods received, grade, package, quantity, quality, damage or shortages</td>
<td>issue goods</td>
<td>order picking according to customer orders</td>
<td>developing efficient vehicle schedules</td>
</tr>
<tr>
<td>record receipts and discrepancies</td>
<td>provide security against shrinkage</td>
<td>consign to vehicle loading area</td>
<td></td>
</tr>
<tr>
<td>unpack / repack if required</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>consign goods to a specific area of store</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>record goods location</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The geographical location of a warehouse should be determined by production sites and the physical position of target markets. In some developing countries, however, political consideration have sometimes over-ridden economic arguments and facilities such as warehouses, godowns, assembly areas and buying points for government organization have been sub-optimally sited.

To summarise, factors that must be considered in the warehouse equation are:

- Location of customers;
- Size of orders;
- Frequency of deliveries;
- Lead times.

Warehouse managers have a number of important challenges including:

- determining the most appropriate unit load(s)
- optimizing space utilization
- reducing the movement of labour, equipment and products/materials to a minimum
- establish a safe, secure warehouse environment and
- keeping costs to a minimum.

**TRANSPORTATION**

Transportation usually represents the greatest distribution cost. It is usually easy to calculate because it can be related directly to weight or numbers of units. Costs must be carefully controlled through the mode of transport selected amongst alternatives, and these must be constantly reviewed. During the past 50 years, road transport has become the dominant transportation mode in the UK. It has the advantage of speed coupled with door-to-door delivery.
The patterns of retailing that have developed, and the pressure caused by low stock holding and short lead times, have made road transport indispensable. When the volume of goods being transported reaches a certain level some companies purchase their own vehicles, rather than use the services of haulage contractors. However, some large retail chains like Marks and Spencer, Tesco and Sainsbury's have now entrusted all their warehousing and transport to specialist logistics companies as mentioned earlier.

For some types of goods, transport by rail still has advantages. When lead-time is a less critical element of marketing effort, or when lowering transport costs is a major objective, this mode of transport becomes viable. Similarly, when goods are hazardous or bulky in relation to value, and produced in large volumes then rail transport is advantageous. Rail transport is also suitable for light goods that require speedy delivery (e.g. letter and parcel post).

Except where goods are highly perishable or valuable in relation to their weight, air transport is not usually an attractive transport alternative for distribution within the UK where distances are relatively short in aviation terms. For long-distance overseas routes it is popular. Here, it has the advantage of quick delivery compared to sea transport, and without the cost of bulky and expensive packaging needed for sea transportation, as well as higher insurance costs.

Exporting poses particular transportation problems and challenges. The need for the exporter's services needs to be such that the customer is scarcely aware that the goods purchased have been imported. Therefore, above all, export transportation must be reliable.

A critical issue in the management of physical distribution activities is whether the organization should own transport facilities or hire them. There are three types of carriers which an organization might choose between when deciding how to ship its product; private carriers, common carriers and contract carriers. Where a company owns and operates its own transport fleet it is termed a private carrier. This fleet is not usually available to any party other than the owner. Common carriers are available to any party wishing to transport goods. Common carriers charge standard rates which are published and freely available to anyone who is interested. A contract carrier serves individual shippers on a medium to long-term basis. The contract usually extends over a specified period with an option to renew the contract.

Transportation costs are largely based on the rates charged by carriers. There are two basic types of transportation rates: class and commodity. The class rate, which is the higher of the two rates, is the standard rate for every commodity moving between any two destinations. The commodity rate is sometimes called a special rate, since it is given by carriers to shippers as a reward for either regular use or large-quantity shipments. Unfortunately, many small business owners do not have the volume of shipping needed to take advantage of commodity rates. However, small businesses are increasingly utilizing a third type of rate that has emerged in recent years. This rate is known as a negotiated or contract rate. Popularized in the 1980s following transportation deregulation, contract rates allow a shipper and carrier to negotiate a rate for a particular service, with the terms of the rate, service, and other variables finalized in a contract between the two parties.

Marketers need to take an interest in their company's transportation decisions. The choice of transportation carriers affects the pricing of products, delivery performance, and condition of the goods when they arrive—all of which will affect customer satisfaction. In shipping goods to its warehouses, dealers, and customers, the company can choose among
five transportation modes: rail, truck, water, pipeline, and air. Transportation costs vary by mode of shipping, as discussed below.

TRUCKING—FLEXIBLE AND GROWING.
The shipping method most favored by small business (and many large enterprises as well) is trucking. Carrying primarily manufactured products (as opposed to bulk materials), trucks offer fast, frequent, and economic delivery to more destinations in the country than any other mode. Trucks are particularly useful for short-distance shipments, and they offer relatively fast, consistent service for both large and small shipments. Trucks have increased their share of transportation steadily and now account for 24 percent of total cargo ton-miles (over 52 percent of actual tonnage). They account for the largest portion of transportation within cities as opposed to between cities. Each year in the United States, trucks travel more than 600 billion miles—equal to nearly 1.3 million round trips to the moon—carrying 2.5 billion tons of freight. Trucks are highly flexible in their routing and time schedules, and they can usually offer faster service than railroads. They are efficient for short hauls of high-value merchandise. Trucking firms have added many services in recent years. For example, Roadway Express now offers satellite tracking of shipments and sleeper tractors that move freight around the clock.

AIR FREIGHT—FAST BUT EXPENSIVE.
Because of the relatively high cost of air transport, small businesses typically use air only for the movement of valuable or highly-perishable products. However, goods that qualify for this treatment do represent a significant share of the small business market. Owners can sometimes offset the high cost of air transportation with reduced inventory-holding costs and the increased business that may accompany faster customer service. Although air carriers transport less than 1 percent of the nation's goods, they are becoming more important as a transportation mode. Air freight rates are much higher than rail or truck rates, but air freight is ideal when speed is needed or distant markets have to be reached. Among the most frequently air-freighted products are perishables (fresh fish, cut flowers) and high-value, low-bulk items (technical instruments, jewelry). Companies find that air freight also reduces inventory levels, packaging costs, and the number of warehouses needed.

WATER CARRIERS—SLOW BUT INEXPENSIVE.
There are two basic types of water carriers: inland or barge lines, and oceangoing deep-water ships. Barge lines are efficient transporters of bulky, low-unit-value commodities such as grain, gravel, lumber, sand, and steel. Barge lines typically do not serve small businesses. Oceangoing ships, on the other hand, operate in the Great Lakes, transporting goods among port cities, and in international commerce. Sea shipments are an important part of foreign trade, and thus are of vital importance to small businesses seeking an international market share.

RAILROADS—LONG DISTANCE SHIPPING.
“Railroads continue to present an efficient mode for the movement of bulky commodities over long distances. These commodities include coal, chemicals, grain, non-metallic minerals, and lumber and wood products.”
Railroads are the nation's largest carrier, accounting for 26 percent of total cargo ton-miles moved. They are one of the most cost-effective modes for shipping large amounts of bulk products—coal, sand, minerals, farm and forest products—over long distances. In recent years, railroads have increased their customer services by designing new equipment to handle special categories of goods, providing flatcars for carrying truck trailers by rail (piggyback), and providing in-transit services such as the diversion of shipped goods to other destinations en route and the processing of goods en route. Thus, after decades of losing out to truckers, railroads appear ready for a comeback.

PIPELINES—SPECIALIZED TRANSPORTERS.
Pipelines are a specialized means of shipping petroleum, natural gas, and chemicals from sources to markets. Most pipelines are used by their owners to ship their own products.

Pipelines are utilized to efficiently transport natural gas and oil products from mining sites to refineries and other destinations. In addition, so-called slurry pipelines transport products such as coal, which is ground to a powder, mixed with water, and moved as a suspension through the pipes.

INTERMODAL SERVICES.
Small business owners often take advantage of multi-mode deals offered by shipping companies. Under these arrangements, business owners can utilize a given transportation mode in the section of the trip in which it is most cost efficient, and use other modes for other segments of the transport. Overall costs are often significantly lower under this arrangement than with single-mode transport.

Of vital importance to small businesses are transporters specializing in small shipments. These include bus freight services, United Parcel Service, Federal Express, DHL International, and others. Since small businesses can be virtually paralyzed by transportation strikes or other disruptions in small shipment service, many owners choose to diversify to include numerous shippers, thus maintaining an established relationship with an alternate shipper should disruptions occur. Additionally, small businesses often rely on freight forwarders who act as transportation intermediaries: these firms consolidate shipments from numerous customers to provide lower rates than are available without consolidation. Freight forwarding not only provides cost savings to small businesses, it provides entrepreneurial opportunities for start-up businesses as well.

Shippers increasingly are using intermodal transportation—combining two or more modes of transportation. Piggyback describes the use of rail and trucks; fishyback, water and trucks; trainship, water and rail; and airtruck, air and trucks. Combining modes provides advantages that no single mode can deliver. Each combination offers advantages to the shipper. For example, not only is piggyback cheaper than trucking alone but it also provides flexibility and convenience.

In choosing a transportation mode for a product, shippers must balance many considerations: speed, dependability, availability, cost, and others. Thus, if a shipper needs speed, air and truck are the prime choices. If the goal is low cost, then water or pipeline might be best.
INVENTORY CONTROL—

Inventory levels also affect customer satisfaction. The major problem is to maintain the delicate balance between carrying too much inventory and carrying too little. Carrying too much inventory results in higher-than-necessary inventory-carrying costs and stock obsolescence. Carrying too little may result in stock outs, costly emergency shipments or production, and customer dissatisfaction. In making inventory decisions, management must balance the costs of carrying larger inventories against resulting sales and profits.

During the past decade, many companies have greatly reduced their inventories and related costs through just-in-time logistics systems. Through such systems, producers and retailers carry only small inventories of parts or merchandise, often only enough for a few days of operations. New stock arrives exactly when needed, rather than being stored in inventory until being used. Just-in-time systems require accurate forecasting along with fast, frequent, and flexible delivery so that new supplies will be available when needed. However, these systems result in substantial savings in inventory-carrying and handling costs.

Inventory (or stockholding) can be described as ‘the accumulation of an assortment of items today for the purpose of providing protection against what may occur tomorrow’. An inventory is maintained to increase profitability through manufacturing and marketing support. Manufacturing support is provided through two types of inventory system:

- An inventory of the materials for production;
- An inventory of spare and repair parts for maintaining production equipment.

Similarly, marketing support is provided through:

- Inventories of the finished product;
- Spare and repair parts that support the product.

If supply and demand could be perfectly coordinated, there would be no need for companies to hold stock. However, future demand is uncertain, as is reliability of supply. Hence inventories are accumulated to ensure availability of raw materials, spare parts and finished goods. Generally speaking, inventories are kept by companies because they:

- Act as a ‘hedge’ against contingencies (e.g. unexpected demand, machinery breakdown);
- Act as a ‘hedge’ against inflation, price or exchange rate fluctuations;
- Assist purchasing economies;
- Assist transportation economies
- Assist production economies;
- Improve the level of customer service by providing greater stock availability.

Inventory planning is largely a matter of balancing various types of cost. The cost of holding stock and procurement has to be weighed against the cost of ‘stock-out’ in terms of production shut-downs and loss of business and goodwill that would undoubtedly arise. These various costs conflict with each other.

Larger inventories mean more money is tied up in stock and more warehousing is needed. However, quantity discounts are usually available for large orders (e.g. of materials for production) and if fewer orders have to be placed, then purchasing administrative costs are reduced. Larger inventories also reduce the risks and costs of stock-outs.
Inventory control can be a major component of a small business physical distribution system. Costs include funds invested in inventory, depreciation, and possible obsolescence of the goods. Experts agree that small business inventory costs have dropped dramatically due to deregulation of the transportation industry.

Inventory control analysts have developed a number of techniques which can help small businesses control inventory effectively. The most basic is the Economic Order Quantity (EOQ) model. This involves a trade-off between the two fundamental components of an inventory control cost: inventory-carrying cost (which increases with the addition of more inventory), and order-processing cost (which decreases as the quantity ordered increases). These two cost items are traded off in determining the optimal warehouse inventory quantity to maintain for each product. The EOQ point is the one at which total cost is minimized. By maintaining product inventories as close to the EOQ point as possible, small business owners can minimize their inventory costs.

The management of inventory can have a major impact upon the profitability of an organization. If inventory levels are too low then there is the risk of stock cuts, i.e. the inability to meet an order. This can result in a loss of revenues, profits and customer goodwill. On the other hand, if the inventory levels are too high then the organization can experience cash flow problems since so much of its capital is tied up in stocks. When inventory levels are high then there is also an increased risk of spoilage, pilferage and obsolescence.

**CUSTOMER SERVICE**

Customer service is a precisely-defined standard of customer satisfaction which a small business owner intends to provide for its customers. For example, a customer service standard for the above-mentioned provider of customized computers might be that 60 percent of all PCS reach the customer within 48 hours of ordering. It might further set a standard of delivering 90 percent of all of its units within 72 hours, and all 100 percent of its units within 96 hours. A physical distribution system is then set up to reach this goal at the lowest possible cost. In today’s fast-paced, technologically advanced business environment, such systems often involve the use of specialized software that allows the owner to track inventory while simultaneously analyzing all the routes and transportation modes available to determine the fastest, most cost-effective way to delivery goods on time.

The level of customer service provided by a company is part of the marketing mix. In some instances, a company offers an exceptionally high level of customer service as the principal means of differentiating itself from competitors. Customer service levels are as pertinent to the intermediaries which the agribusiness serves.

For many customers the level of customer service provided by the agribusiness enterprise is as important as any other attribute which it may possess, including the excellence of its products. There are aspects of customer service which have little to do with physical distribution, such as the after-sales service, warranties and the handling of customer complaints, but a large part of customer service is effected through the physical distribution function. A wide range of criteria may be used in evaluating the service level offered by an agribusiness but these are likely to include:

- timeliness of delivery
- order size and assortment constraints
- order cycle time, i.e. time interval between order placement and delivery
- percentage of items out of stock
- percentage of orders filled accurately
- percentage of orders arriving in good condition,
- ease and flexibility of order placement, and
- competitors' service levels.

Maintaining high levels of customer service carries heavy costs and can only be justified when doing so results in marketing opportunities which otherwise would not be realized. At the same time, the logistics manager must monitor the effects of operating a given level of customer service on profitability. As figure seeks to illustrate, as the customer service level gets nearer to 100 percent, the costs of doing so rise sharply. This means considering the trade-offs between the costs involved and the service level offered. It is possible, after all, to provide a level of service above that required or appreciated by the customer. There is likely to be no discernible difference in the service levels of two suppliers, one of whom is able to immediately supply a spare part from stock on 99 of 100 occasions and another who is able to supply from stock on 97 of 100 occasions.

**Figure: The relationship between customer service level and cost**

The starting point for the demand chain is the level of customer service and the order cycle time, which are influenced by customers and competitors. The level of customer service is critical to the total costs of an operation and care must be taken to ensure that your marketing plan does not over-service the market.

The capability of reducing cycle time and enhancing customer service is known as Quick Response Logistics and through the use of technology, can lead to "paperless" transactions. Cycle times are being reduced, especially in the area of retail trade, where bar-code scanning, information transfer through EDI and direct links between the cash register and suppliers are providing increased accuracy and faster goods throughput.
Developing a customer service policy

Given the need to deliver a level of customer service which is acceptable to the market and the level of cost which can be incurred in doing so, it is important to approach the establishment of a customer service policy in a systematic way. A six-step procedure is recommended as follows:

1. Identify the key aspects misdirected. It is also necessary to find out how customers measure service levels. Marketing research and the organization’s sales force can help in identifying key service elements and how these are measured.

   It is likely that aspects of customer service will vary in their

2. Establish the relative importance to customers and an organisation will wish to importance of each aspect concentrate its resources on those which really matter to the of service: customer. Again, marketing research can help ascertain the key service elements upon which to focus.

3. Determine how, if at all, the key aspects of a market market segment is based upon a service, and their relative recognition that customers vary in their needs and wants. So, importance, vary in too, might their assessment of what are important aspects of different market customer service.

4. Assess current organizational competitiveness on customer service, in each market segment:

   Customers and potential customers can be asked to make comparisons, on the key service elements, between the organization and its main competitors in each major segment of the market. Targets should be established for each element of the service packages, e.g. 80 percent of parts will be available from stock

5. Develop cost-effective or will be dispatched within 3 working days, a minimum of 98 customer service out of 100 orders will be delivered without damaged items, 90 packages for each of the percent of all orders will be delivered complete. Such standards have to be based upon a careful assessment of the organization’s capabilities, the attendant costs and what is acceptable to customers.

   Once standards have been established, the organization must put into place monitoring systems to check on what is actually

6. Establish monitoring being achieved so that remedial action can be taken at an early stage. Feedback on the levels of service being achieved should be given to personnel involved in delivering the service. Such feedback can be a powerful motivation.
Firms must take a total cost approach to physical distribution (PD). This means that firms should work to minimize the total cost of physical distribution and not try to minimize each of the five tasks separately. It does not make sense to consider the costs of storing and handling inventory and transportation separately. For example, a firm might be considering two different approaches to PD:

Approach A: They will have one warehouse in the center of India and will use computerized order processing and ship via air.

Approach B: They will have six warehouses throughout the India and ship via truck.

The question is which approach is cheaper overall. Approach A may be very costly as far as shipping (shipping by air is very expensive) but the savings in inventory and warehousing may outweigh the extra expense of shipping by air. Approach B has much lower shipping expenses but the warehousing and inventory expenses are much higher.

The brilliance of Dell Computers when it entered the computer business was in realizing that it would be cheaper to allow consumers to configure a computer on the Dell website and order it online, rather than selling them in stores. After the order was received by Dell, the computer was assembled and shipped. This saved the company a huge amount of money on warehousing, inventory management, and order processing. Other companies were selling computers using traditional channels of distribution -- manufacturer to wholesaler to retailer -- in which consumers bought them in stores. This meant that a large number of computers were stored in warehouses. The life cycle of a computer is short and once a computer is a year or two old, it has very little value. Whoever is stuck with the old inventory, is going to lose a lot of money. On the other hand, when a company makes a product "on demand" there is no inventory.

2.23 BASIC OUTPUT OF PHYSICAL DISTRIBUTION SYSTEM

The output from any system of physical distribution is the level of customer service. This is a key competitive benefit that companies can offer existing and potential customers to retain or attract business. From a policy point of view, the desired level of service should be at least equivalent to that of major competitors.

The level of service is often viewed as the time it takes to deliver an order to a customer or the percentage of orders that can be met from stock. Other service elements include technical assistance, training and after-sales services. The two most important service elements to the majority of firms are:

Delivery - reliability and frequency;

Stock availability - the ability to meet orders quickly.

To use a simple example, a company's service policy may be to deliver 40 per cent of all orders within seven days from receipt of order. This is an operationally useful and specific service objective that provides a strict criterion for evaluation. A simple delivery delay analysis will inform management whether such objectives are being achieved or whether corrective action is necessary to alter the actual service level in line with stated objectives. Such an analysis can be updated on receipt of a copy of the despatch note. Management can be provided with a summary, in the form of a management report, from which they can
judge whether corrective action is necessary. There can, of course, be over-provision of service, as well as under provision.

2.24 INTEGRATED LOGISTICS MANAGEMENT

"The logistics concept that emphasizes teamwork, both inside the company and among all the marketing channel organizations, to maximize the performance of the entire distribution system."

Today, more and more companies are adopting the concept of integrated logistics management. This concept recognizes that providing better customer service and trimming distribution costs requires teamwork, both inside the company and among all the marketing channel organizations. Inside, the company's various functional departments must work closely together to maximize the company's own logistics performance. Outside, the company must integrate its logistics system with those of its suppliers and customers to maximize the performance of the entire distribution system.

Cross-Functional Teamwork Inside the Company

In most companies, responsibility for various logistics activities is assigned to many different functional units—marketing, sales, finance, manufacturing, purchasing. Too often, each function tries to optimize its own logistics performance without regard for the activities of the other functions. However, transportation, inventory, warehousing, and order-processing activities interact, often in an inverse way. For example, lower inventory levels reduce inventory-carrying costs. But they may also reduce customer service and increase costs from stock outs, back orders, special production runs, and costly fast-freight shipments. Because distribution activities involve strong trade-offs, decisions by different functions must be coordinated to achieve superior overall logistics performance.

The goal of integrated logistics management is to harmonize all of the company's distribution decisions. Close working relationships among functions can be achieved in several ways. Some companies have created permanent logistics committees made up of managers responsible for different physical distribution activities. Companies can also create management positions that link the logistics activities of functional areas. For example, Procter & Gamble has created supply managers, who manage all of the supply chain activities for each of its product categories. Many companies have a vice president of logistics with cross-functional authority. The important thing is that the company coordinate its logistics and marketing activities to create high market satisfaction at a reasonable cost.

2.25 RELATIONSHIP BETWEEN PHYSICAL DISTRIBUTION & MARKETING

The relationship between physical distribution & marketing is not clearly defined. Some authors (e.g. Heskett,1962;Kotlar,1967) incorporate physical distribution within a broad definition of marketing, While others consider marketing and physical distribution to be separate though inter related activities. The former gain support from the traditional view of marketing as being concerned principally with the four 'Ps' of product, price, promotion and place. The 'Placing' of goods at selling points clearly involves physical distribution. There is disagreement, however over what can legitimately be regarded as physical distribution.
Kotlar distinguishes broad and narrow definitions of physical distribution. The broad definition embraces decisions on the number of outlets to be supplied and choice of intermediaries, as well as the physical organisation of transport and storage operations. The narrow definitions assume that the basic framework of outlets and intermediaries is already established and sees the role of physical distribution to be the efficient movement of goods through these predetermined channels. Schary and Becker (1973) explore the relationship between choice of marketing channel and physical distribution requirements in some detail. In practice, Channel decisions are usually made independently of decisions on the structure of physical distribution systems.

Physical distribution functions do not in themselves, however, provide sufficient justification for the existence of full marketing intermediaries such as wholesalers and retailers. The importance of marketing intermediaries is not always recognised. It is sometimes suggested that they do not earn the additional margin they impose on the final selling price. In case of some products, distribution costs can exceed the cost of production. There is no reason, though, why it should cost more to make a product than to distribute it. High distribution costs are partly a consequence of the effort to reduce production costs by centralising the manufacturing process. Baker (1985, P.296) considers it especially ironic that the pursuit of economies of scale in production—which is seen as laudable and to be encouraged—tends to lead to diseconomies in distribution. Furthermore, when comparing distributors margins with producers charges, it must be remembered that the latter are artificially low because producers rely on outside agencies to handle much of their distribution.

Intermediaries that do engage in physical distribution are often classified as providing either a full service or a limited service. Full service wholesalers, for example, assemble store sort, promote and deliver goods, extend credit to retailers and sometimes provide them with advice on store management. Limited service wholesalers transfer responsibility for some functions to their customers, thereby reducing their costs and offering lower prices. The typical cash and carry wholesaler, for example withholds credit and requires trade customers to assemble and transport their purchases themselves. At a lower level in the marketing channel, ‘non store’ retailers, such as mail order firms, can be distinguished from conventional shop based retailers. The latter can be further categorised into those with distribution facilities capable of receiving bulk supplies directly from producers and those dependent on the logistical support of wholesalers. Channels have also been short circuited by producers extending their control of physical distribution forward as far as the retail outlet.