CHAPTER - V

EVALUATION OF DISTRIBUTION NETWORK
Control of distribution network
- Methods of distribution network control
- Control strategies
- Standards for channel control
- Monitoring channel performance

Evaluation of performance of own sales offices

Evaluation of dealer performance
- Stage 1 Top management assessment
- Stage 2 Regional territory evaluation
- Evaluation of dealers performance by manufacturers.

The manufacturers' rating of the performance of different channels of distribution network.

Conclusion

Major findings

Summary
5.1 CONTROL OF DISTRIBUTION NETWORK

A manufacturer sets up multi-channel system for the purpose of reaching all the prospective customers in the market. The dealers who are also the members of the channel fall into parties who are external to the manufacturer. Hence, the manufacturer has to exercise proper control over the dealers to ensure maximum contribution from them towards the accomplishment of the marketing goals.

METHODS OF DISTRIBUTION NETWORK CONTROL

Various methods of distribution network control are : 1) Vertical integration, 2) Contracts, and 3) Leadership.

Vertical integration : The greatest degree of control over a channel system can be achieved when one institution simply owns the network channel. For example, manufacturers owning and operating their wholesale network. Vertical integration requires heavy capital investment and highly efficient professional management.

Contracts: Channel members may enter into long-term contracts as in franchising agreements binding themselves to buying, selling and service arrangements. Exclusive dealership can also be classified as contractual, but it may be of a less binding nature and depend more on mutual trust than on a legal document.

Leadership: A channel system may be bonded together and managed solely because channel members accept the leadership and power of one member. A channel system of the orthodox type (viz., independent manufacturer-distributors-end users) illustrates this form of channel arrangement. For such a system to be stable, each channel member must be convinced of the mutual dependence of all members for achieving the common goal of survival and growth. A channel leader must have differential power advantage in order to maintain his position.

The manufacturers often gain this power to control the channel of distribution through investments in information management, sales and service engineers, sales promotion and research and development. These serve as differential power bases for the manufacturer. Middlemen tend to accept the leadership of manufacturers who provide complete, multifaced well-planned promotions, new products, technical service support and the like.

2. Ibid, p.67.
CONTROL STRATEGIES:

A manufacturer who is acting in a leadership capacity in a channel of distribution has a variety of strategic options available to bring the marketing policies or practices of other channel members within his control. The major control strategies include:

1) Franchising,
2) Control of prices,
3) Restrictions on handling competitive products, and
4) Control of promotions.

Franchising: This is a continuing relationship in which one party (Franchiser) provides another party a licensed privilege to distribute his products and services in return for a royalty or other consideration from the Franchisee. The franchiser achieves the maximum degree of control over the franchisee, short of outright ownership, by imposing a standardized pattern of operation on the franchisee. The franchiser reinforces this standardization by providing assistance in organizing the establishment, in formal training, and in distribution management.


Franchising can be used by a company to open more outlets with less investment of its own funds than would be possible through any other method of expansion. The most important advantage of franchising to the manufacturer is the high degree of personal motivation from the franchisee. The franchisee has a strong vested interest in the success of the franchise outlet. Hence, he works hard to increase sales and to exercise control over costs.

A possible disadvantage of franchise is the lack of direct control over the employees hired in the franchise outlets. Unless the franchiser maintains close field supervision, the franchisee may not maintain the standardised pattern of operations.

Control of Resale Prices: This is another means of control over channel middlemen. The method adopted by the manufacturers to control resale price of their products is to set minimum or actual resale prices of their products and suggesting same to the middlemen.

Restrictions on handling competitive products: A manufacturer may restrict handling competitors' products by his distributors through exclusive and tying contracts. Under exclusive dealing, the reseller agrees only to deal in a particular manufacturer's products.
Control of selling territories: A manufacturer may agree to give exclusive selling rights to only one distributor in a given territory. In this arrangement, the distributor is protected from the competition of rivals selling the same product.

Control over promotion: A manufacturer may exert influence over the promotional activities by employing cooperative advertising arrangements to encourage local reseller advertising. The manufacturer invariably reserves the right to approve the advertising materials used by the resellers.

STANDARDS FOR CHANNEL CONTROL

In order to exercise control over channel performance, a manufacturer may lay down certain standards of performance. The following standards provide useful measures.

1) Cost of distribution: The manufacturer would prefer to keep the total marketing cost as low as possible.

2) Adequate sales effort: The manufacturer desires that, the channel participants make required sales effort, and achieve expected sales targets.

3) Control of channel conflict: The manufacturer seeks to control the degree and forms of intra-channel rivalry among channel members.


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4) **Market information:** The manufacturer seeks speedy and accurate information on target market, fast moving and slow moving items, inventory levels, turnover rates and the like.

5) **Favourable image:** The manufacturer would prefer those distribution practices which would enhance his image and reputation of his products. Hence he is concerned with the integrity and reputation of the channel middlemen for fair dealing with their customers and suppliers.

6) **Service capability:** The middlemen must be able to provide desired services to the end-users. They play an important role in after-sales services as they are closer to the end-users and in an excellent position to provide customer services.

The relative weight that management places on each of these standards may vary from one period to another according to the circumstances.
The manufacturer has to monitor the extent to which the standards of the system have been achieved. This is done through securing feedback performance reports regularly from the channel members in a prescribed format. The manufacturer's marketing personnel may also visit the distributors periodically for studying their performance, and observance of standard practices.

Four types of channel adjustment may result from monitoring the performance. These are:
1) A channel shift,
2) A channel alteration,
3) A role modification, and
4) A relationship modification.

Channel Shift: The manufacturer may discontinue using part or all of a channel of distribution. i.e., eliminating the middlemen and selling directly to the end users.

Channel Alteration: The manufacturer may replace an individual middleman (say, a dealer) without affecting other channel participants. Alternatively, a middleman may withdraw from a channel because of dissatisfaction with his supplier or to avail a better opportunity.

Role Modification: The role played by individual channel participant may undergo a modification as a consequence of changing marketing conditions. Such modifications may include a change in the number and type of customers to whom the channel sells or adding new marketing activities or dropping existing activities.

Relationship Modification: The manufacturer may alter his relationships with the channel participants by varying discount structure or promotional allowances, etc.

Any revision of the channel of distribution requires a comprehensive review of the circumstances that are affecting distribution trends in particular industry. The firm must try to gauge the extent of possible disruption, ill will or instability that a proposed change in channels might incur. Too frequent revisions should be avoided.
The Position in Computer Marketing: Like in any other area, even in computer marketing and distribution various control devices are adopted. The manufacturers, covered under this study, have been using the following Strategies, in the order of importance, for the purpose of exercising effective control over the dealers:

1. Control over selling territories: The manufacturer specifies the area of operations for each channel member;

2. Restriction on handling competing products: The middlemen in the channel are not usually allowed to deal with the products of other manufacturers which act as good substitutes and therefore, as competing products;

3. Emphasis on non-price competition: The channel members of a manufacturing company are not expected to compete with one another on the basis of price. The price competition is not a desirable one as the same affects the profitability of the channel members adversely. Yet, this study reveals the presence of significant price competition among the dealers.

The manufacturers monitor the performance of channel-members by getting quarterly feedback information from them on:
1) Actual sales achieved against target fixed;
2) Remittances made;
3) Amount of outstandings;
4) Value of pending orders;
5) Average discount allowed; and
6) Customer service.

On the basis of the information collected from the dealers on quarterly basis, their performance will be reviewed in the quarterly meetings of the top management.

The above approach appears to be inadequate and does not cover many of the important aspects of performance like cost of distribution, sales efforts, channel conflict, etc.

Market Channel Analysis: The manufacturers were asked to state whether they make market channel analysis by a) Territory b) Customer type c) Marketing cost d) Sales volume, etc. They have not furnished any information on these vital issues. But for effective and a comprehensive evaluation of market channel, it is necessary to collect the following information at periodic intervals:
1. Sales - Both product-wise and customer-wise
2. Growth in sales volume
3. Market share
4. Market coverage
5. Channel distribution
6. New market development
7. Sales promotional effort
8. Dealer development
9. Collection of outstandings
10. Marketing cost
11. Customer satisfaction
12. Inventory management

This study reveals that in most of the cases the manufacturers do not collect the relevant information on all the issues for an effective evaluation.

5.2 EVALUATION OF PERFORMANCE OF OWN SALES OFFICES

With a view to study the procedure adopted by the manufacturers to evaluate the performance of their own sales offices, they were asked to specify the criteria they have been using for evaluation. Further, they were asked to rank them in the order of their preference. The ranks were then assigned scores like, rank one-five scores, rank two-four scores and rank three-three scores, etc (Table-5.1).
The analysis of their responses is presented below:

a) Criteria adopted by the manufacturers for evaluation of own sales offices are as follows:

A. Sales volume/growth

B. Quality of customer service

C. Amount of outstandings.

b) The overall ranking, in the order of preference, is as follows:

<table>
<thead>
<tr>
<th>Factor</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
</tr>
<tr>
<td>B</td>
<td>2</td>
</tr>
<tr>
<td>C</td>
<td>3</td>
</tr>
</tbody>
</table>

Number of Variables ; $N = 3$

Number of Respondents ; $K = 16$
TABLE-5.1

EVALUATION OF PERFORMANCE OF OWN SALES OFFICES

<table>
<thead>
<tr>
<th>Factors</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Ranks</th>
<th>Score</th>
<th>No. of Manfr.</th>
<th>Total</th>
<th>No. of Manfr.</th>
<th>Total</th>
<th>No. of Manfr.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5</td>
<td>12</td>
<td>60</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>2</td>
<td>4</td>
<td>4</td>
<td>16</td>
<td>2</td>
<td>8</td>
<td>12</td>
<td>48</td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>14</td>
<td>42</td>
<td>2</td>
<td>6</td>
</tr>
</tbody>
</table>

| Total (Rs) | 16 | 76 | 16 | 50 | 16 | 64 |

Source: Personal Survey Data

Using Kendall's Coefficient of Concordance (W), the following null hypothesis was tested:

The ratings given by the various respondents are independent of each other.
\[ W = \frac{1}{12} \times 16 \left( \frac{3 - 3}{3} \right) \]

Where \( s = \text{Sum of squares of the observed deviations from the mean of } R_s \text{ i.e. } s = \sum (R_s - \frac{\sum R_s}{N})^2 \)

\[ R_s = \text{Sum of scores in each column}. \]

\[
\sum \frac{R_s}{N} = \frac{76 + 50 + 64}{3} = \frac{190}{3} = 63.33
\]

\[ s = (76 - 63.33)^2 + (50 - 63.33)^2 + (64 - 63.33)^2 = 338.65 \]

\[ W = \frac{338.65}{\frac{1}{12} \times 16 \left( \frac{3 - 3}{3} \right)} = 0.6610 \]

The value of \( s \) at 0.01 level of significance from the table of critical value of \( s \) in Kendall coefficient of concordance for \( N=3 \) and \( K=16 \) is 140.2.
Substituting for s=140.2 in the above formula the value of W will workout to 0.2738. Since the calculated value of W is greater than the table value the null hypothesis is rejected at 0.01 level of significance.

That is, the rankings given by various respondents are not independent of each other and there is a significant concordance among the rankings given by them.

The above analysis shows that the manufacturers under study have not considered some of the important criteria like channel contribution, intensity of sales effort, market coverage, market share, etc in evaluating the performance of own sales offices.

5.3 EVALUATION OF DEALER PERFORMANCE

Hlavacek and Mc Cuiston suggest the following approach for reviewing the performance of the dealers by the manufacturers periodically:

Stage 1: Top management assessment. The top management has to review the performance of the dealers on the basis of sales growth achieved by them and comparing the market share in the assigned territory with the national average. The area sales manager also ranks distributors as excellent, good, fair or poor taking into account the attention given to the products, customer services and the quality of coverage in the assigned area. Combining the headquarters data and the area sales manager's judgments, managers can quickly identify the best dealers and mark the inefficient ones for further information.

Stage 2: Regional territory evaluation: Armed with a detailed headquarters assessment of the 'Problem dealers', the person responsible for field evaluation has to rank them on the basis of the following Criteria:
1. Adequacy of business experience as reflected in quality of customer service.
2. Coverage of assigned area.
3. Competence in managing the business (sales management, financial control, record keeping, warehousing and inventory control).

4. Historical trend of volume measured against performance requirements established by the company's area sales managers.

5. Share of market in assigned area

6. Demonstrated willingness to carry a full line of products and to service all customer needs

7. Annual inventory turnover

8. Efficiency and condition of warehouse facilities and equipment

9. Financial position

10. Ability to achieve growth in the assigned area.

The manufacturer has to pull up the low performers extending the required support. At the same time, he has to replace those whose performance is inadequate for a long time.

As is known, a comprehensive evaluation of distribution network on a continuous basis requires considerable time, effort and diplomacy. Continual upgrading is therefore necessary for effective management of distribution channels.
EVALUATION OF DEALERS PERFORMANCE BY MANUFACTURERS

The Computer manufacturers evaluate the performance of their dealers on the basis of certain criteria such as sales performance, market share, market development, customer satisfaction, promptness in payment, market coverage, market information feedback, sales promotion and inventory level. They were asked to rank them from 0 to 5 for each criterion according to their perceived importance. Their rankings are shown in Table 5.2.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Criteria</th>
<th>Total Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.</td>
<td>Sales Performance</td>
<td>72</td>
</tr>
<tr>
<td>02.</td>
<td>Market Share</td>
<td>70</td>
</tr>
<tr>
<td>03.</td>
<td>Developing market</td>
<td>68</td>
</tr>
<tr>
<td>04.</td>
<td>Customer Satisfaction</td>
<td>66</td>
</tr>
<tr>
<td>05.</td>
<td>Promptness on payment</td>
<td>64</td>
</tr>
<tr>
<td>06.</td>
<td>Market coverage</td>
<td>62</td>
</tr>
<tr>
<td>07.</td>
<td>Market information feedback</td>
<td>60</td>
</tr>
<tr>
<td>08.</td>
<td>Sales promotion</td>
<td>58</td>
</tr>
<tr>
<td>09.</td>
<td>Inventory level</td>
<td>32</td>
</tr>
</tbody>
</table>

Source: Personal Survey Data
In the table (ie, Table-5.2), the figures against each of the criteria represent the total score (out of 80) assigned to them. It is evident from the above that sales performance and market share have been given the highest weightage by the manufacturers. The Weightage given by them for sales promotion, market information feedback, market coverage, promptness in payment, customer satisfaction and developing market varies from 58 to 68. It is observed that they have given least weightage to inventory level.

The highest weightage given by them here corresponds to the findings of the researcher that technical expertise of the dealers takes precedence over other factors while selecting dealers.

5.4. THE MANUFACTURERS’ RATING OF THE PERFORMANCE OF DIFFERENT CHANNELS OF DISTRIBUTION NETWORK

The manufacturers covered in this study were asked to rate the relative performances of their own sales offices and dealers on certain parameters on a scale of 1 to 5 denoting 'very poor' to 'excellent' (Table 5.3).

The figures against each criterion represent the score given to it out of a maximum possible score of 80.
**TABLE-5.3**

RATING OF RELATIVE PERFORMANCE OF DIFFERENT CHANNELS

<table>
<thead>
<tr>
<th>SI.No.</th>
<th>Criteria</th>
<th>Own sales office</th>
<th>Dealers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Creating new demand</td>
<td>76</td>
<td>72</td>
</tr>
<tr>
<td>2.</td>
<td>Sales performance</td>
<td>75</td>
<td>70</td>
</tr>
<tr>
<td>3.</td>
<td>Customer satisfaction</td>
<td>76</td>
<td>68</td>
</tr>
<tr>
<td>4.</td>
<td>Cost effectiveness*</td>
<td>64</td>
<td>66</td>
</tr>
<tr>
<td>5.</td>
<td>Market research</td>
<td>75</td>
<td>64</td>
</tr>
<tr>
<td>6.</td>
<td>After sales service</td>
<td>76</td>
<td>62</td>
</tr>
<tr>
<td>7.</td>
<td>Market information</td>
<td>75</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: Personal Survey Data

* The scores against this criteria are to be interpreted as: sale through own sales offices is less economical than the sales through dealers.

It is evident from the above that own sales offices perform more effectively than dealers in all respects except cost effectiveness.

Selling the products through dealers is more economical than owning sales offices. Though own sales offices are not so economical, they play a very important role in market development, serving certain segments of market, sales promotion, control over distribution system and customer service.
CONCLUSION

From the detailed analysis made in the foregoing pages it can be concluded that the computer manufacturers are using both their own sales offices and the dealers to effect the sale of their products. Out of the two, selling through their own sales offices is being preferred by the manufacturers. In spite of this, they are selling their products even through the dealers for the purpose of achieving the corporate objectives of maximisation of sales, growth, market share, etc. Further they use several strategies for controlling the dealers. They also evaluate the performance of their own sales offices using certain parameters.

MAJOR FINDINGS

The major findings of this chapter are:

1. The manufacturers, while monitoring the performance of dealers do not cover important aspects of performance like cost of distribution, sales efforts, etc. Likewise they have also left out some important aspects like market coverage, market share, etc while evaluating their own sales offices.

2. Manufacturers own sales offices perform more effectively than dealers in all aspects except 'cost effectiveness'.
SUMMARY

The manufacturers covered in this study adopt several strategies like control over sales territories, restriction on handling competing products, emphasis on non-price competition, etc. for the purpose of exercising effective control over the dealers. The manufacturers monitor the performance of dealers by getting feedback information from them on several aspects. But, their approach appears to be inadequate and does not cover many important aspects of performance like cost of distribution, sales efforts, channel conflict, etc.

It is found that manufacturers have not considered some of the important criteria like channel contribution, intensity of sales effort, market coverage, market share, etc. for evaluating the performance of own sales offices. From the manufacturers' rating of the performance of different channels of distribution network, it is found that companies' own sales offices perform more effectively than dealers in all respects except cost effectiveness.