

# **Sales & Distribution Management**

**Block**

**5**

## **DISTRIBUTION MANAGEMENT**

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## BLOCK 5: DISTRIBUTION MANAGEMENT

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Distribution Management refers to the management of all activities that facilitate movement of goods from suppliers to the point of sale. The fifth block of the course on Sales & Distribution Management, deals with logistics and channel management. The block contains four units. The first unit deals with logistics management, C&F agents and different aspects associated with it. The second unit deals with different elements of marketing channels. The third unit focuses on the importance of channel integration. The fourth unit deals with channel management.

An effective and efficient logistics system is necessary to foster a co-operative body of channel members. The twentieth unit, *Marketing Logistics and C&F agents*, focuses on logistics in sales and distribution. The unit describes the importance of logistics in distribution management and the functions in logistics management. It also discusses the importance of communication in logistics. The unit also explains the technologies and strategic issues involved in logistics management. It further examines the role of C&F agents in the logistics process and the challenges involved.

Marketing channels refers to the entire ecosystem of people and organizations that facilitate transfer of goods from point of production to the point of sale. The twenty first unit, *Marketing Channels*, deals with various dimensions of marketing channels. The unit describes the evolution of marketing channels and the role of channel members. The unit also examines channel functions. The unit provides an idea about the aspects to be considered while designing market channels. It also explains different types of channel flows, and the costs involved.

Customers look for consistent experiences. Hence it is important to connect the various channel activities and ensure that there is consistent communication and utility across the various channels. The twenty second unit, *Channel Integration*, discusses the importance of channel integration. The unit describes several types and benefits of vertical marketing systems. The unit also explains horizontal marketing systems and hybrid channel systems.

By effectively managing the channel partners who assist in the distribution process a firm can align with needs of customers and improve customer satisfaction. The twenty third unit, *Channel Management*, discusses the various aspects pertaining to channel management. The unit provides an idea about selecting, motivating, and evaluating channel members. The unit also explains about managing channel relationships.

## Unit 20

# Marketing Logistics and C&F Agents

### Structure

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- 20.1 Introduction
- 20.2 Objectives
- 20.3 Logistics and its Importance
- 20.4 Functions in Logistics Management
- 20.5 Importance of Communication in Logistics
- 20.6 Technology in Logistics
- 20.7 Streamlining the Logistics Process
- 20.8 Strategic Issues in Logistics Management
- 20.9 Local and Global Challenges in Logistical Management
- 20.10 Summary
- 20.11 Glossary
- 20.12 Self-Assessment Exercises
- 20.13 Suggested Readings/Reference Materials
- 20.14 Answers to Check Your Progress Questions

*“You won’t find it difficult to prove that battles, campaigns, and even wars have been won or lost primarily because of logistics.”*

- General Dwight. D. Eisenhower, an American military officer and statesman

### 20.1 Introduction

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Logistics is an important element of a successful supply chain that helps increase the sales and profits of businesses that deal with the production, shipment, warehousing and delivery of products. Moreover, a reliable logistics service can boost a business' value and help in maintaining a positive public image. Without efficient logistics, a business cannot win the profitability war.

The last unit of the previous block discussed the determinants of sales force performance, the criteria and methods for evaluating sales force performance, and how to monitor and review sales force performance. The present unit explains about logistics in sales and distribution management.

In the highly competitive business environment of today, companies find it difficult to maintain their competitive advantage over others only by developing

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innovative strategies pertaining to the product, price, place, or promotion. Though they have tried out various methods to build a competitive advantage for themselves like making changes in the product design, pricing the product differently, and even trying to reduce the cycle time for the product to reach the retailer's shelves from the manufacturing location, they have realized that competitors can easily duplicate these efforts. Thus, the emphasis of all companies today is to build a sustainable competitive advantage. Logistics provides a means by which they can do just that.

This unit will examine the various aspects pertaining to logistics management. It will discuss the importance of logistics in the current business environment, describe the various functions in logistics management and the use of technology in logistics, the importance of streamlining the logistics process and the strategic issues involved in logistics management. This unit will also provide an idea of the local and global challenges in logistics management.

### **20.2 Objectives**

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After going through this unit, you should be able to:

- Recognize the importance of logistics in sales and distribution management.
- Illustrate the functions in logistics management.
- Explain the technology used in logistics management.
- Discuss how to streamline the logistics process.
- Analyze the local and global challenges in logistics management.

### **20.3 Logistics and its Importance**

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The origin of the term 'Logistics' has been traced to the Latin word *logugea*, which means a lodge or hut. Logistics is often erroneously thought to be a purely military term due to its initial association with the military. In fact, the creation of the post of a *Marechal General des Logis* in the French Army in 1670, is the first recorded instance of the use of the term in a military organization. Webster's dictionary too defines logistics as "the branch of military science having to do with procuring, maintaining, and transporting material, personnel, and facilities." History is witness to the fact that the most successful war campaigns have been the ones in which the winning side was equipped with a superior logistics network. An efficient logistics network was instrumental in quickly and efficiently transporting supplies, materials, equipment, and troops to the site of action. Operation Desert Storm, in which the US army was successful in efficiently moving its troops and tanks to the site of action during the Gulf War in 1991, is a good example of how a superior logistics network contributes to a winning military campaign.

In business too, logistics plays a similar role as in the military. It 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. Companies across the world are increasingly realizing the importance of attaining a competitive edge over their competitors by efficient logistics management.

Liberalization of markets across the world has led to an increasing number of companies expanding their business by setting up manufacturing and marketing facilities in various parts of the world. The high growth potential in the liberalized economies of the Asia-Pacific region has encouraged transportation and logistics companies such as Federal Express (FedEx), DHL, United Parcel Service (UPS), and TNT, to think of expansion plans. The tremendous scope for growth, exceeding 20% per year, in these economies has also led to third party logistics providers expanding their operations in these regions. Notable among third party logistics providers are Maersk, Exel, Kuehne & Nagel, Tibbett and Britten, Schneider Logistics, and TNT.

The overriding importance being given to logistics in various businesses can be attributed to the following reasons:

- Companies now have a wider choice of alternatives available to them to maintain cost and service standards. These alternatives may be in the form of shipping products through containerization, using mini computers and sophisticated satellite communication systems to track shipments, or transporting them by air to ensure speedy delivery of the products. All these alternatives have a cost attached. This has made it essential for companies to ensure that they maintain an efficient logistics management system so that they can gain an advantage over their competitors.
- The location of retail outlets is based on proximity to the market. During periods of energy shortages, transportation costs become the primary concern of companies. These costs play a crucial role in the companies' plant and warehouse location decisions. Thus, during periods of energy shortage, having their own logistics system helps companies minimize transportation costs and benefits them in the long-term.
- The growing complexity of product lines and the increasing shortage of raw materials are forcing companies to focus on logistics management to ensure constant and steady supply of raw material to manufacturing locations.
- Yet, another reason for companies to increase their focus on logistics is the belief that an effective system of computerized inventory control will help them tide over any crisis that may arise on account of swings in business cycles, changes in interest rates, increase in cost of labor, etc.

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### Example: The Indian Road Logistics Ever Growing

Redseer Management Consulting recorded that the Indian road logistics market spending will reach \$330 billion by 2025 with a CAGR of 7-8 percent. India handles approximately 4 billion tonnes of goods each year, trucks and other vehicles handle most of the movement of these goods. Railways, coastal and inland waterways, pipelines, and airways account for the rest. With rising income levels, higher exports, a rapidly growing e-commerce sector, a growing retail sales market, and a projected GDP growth of seven to eight percent in the next five years, the demand for goods movement is also expected to increase.

*Source: Kurian, L.C. (February 5, 2022). Survival of the fittest is mantra for Indian logistics in 2022. Retrieved from <https://www.itln.in/survival-of-the-fittest-is-mantra-for-indian-logistics-in-2022>. Accessed on 18-05-2022*

These reasons have led to companies in various industries laying increasing emphasis on logistics and logistics management. Exhibit 20.1 reiterates the importance of smooth functioning of supply chain and logistics for carrying out economic activities without any disruptions. Covid-19 pandemic has created disruptions in supply chain at global level and this could mean opportunities for India.

### Exhibit 20.1: Can India Gain from Covid-19 Supply Chain Disruptions?

In April 2020, when both India and California, USA were locked down because of Covid-19, Facebook, Inc announced that it invested \$5.7 billion in Reliance Jio, India's largest telecom company. This investment announcement instantly increased the valuation of Jio, making it one of the top companies of India. Entering into an investment partnership such as this, requires many face-to-face business meetings. There was no joint public announcement of Facebook and Reliance Jio partnership. Mukesh Ambani made this announcement from his home.

India and China were USA's major trade partners. Out of the two, China's domination was absolute. But Covid-19 has changed US equations with China. It has disrupted global supply chains. A Pew survey (Pew is a research center that provides information on social issues, gathers public opinion and studies demographic trends) conducted in April 2020, revealed that over two-thirds of Americans do not view China favorably. Experts consider this as the most negative rating for any country since 2005.

*Contd....*

The question that is being asked by economists is, “Will India emerge as an alternative to China from where goods could be sourced?” Given below are some points that experts point out to explain why China’s loss could be India’s gain:

- Companies of USA, Australia, and Europe have been hit because of the supply chain shocks and most companies have realized that overdependence on one country for supplies is too risky. With its huge population and thriving democracy, India has emerged as an alternative. It is one of the world’s largest economies and has untapped potential to fill in a part of the vacuum that the ‘China Exodus’ plan of MNCs can create. Dr. Mukesh Aghi, CEO, US-India Strategic Partnership Forum, viewed that with US companies looking for an alternative to China, it is natural for India to be a natural option and destination.
- Even in the pre-Covid era, most companies like Ford, Nokia had a manufacturing base in India.
- India exports agricultural goods, spices and processed food to USA. In the global pharmaceutical landscape, Indian pharmaceutical firms have been very successful. Indian suppliers cater to 40% of the demand for US drugs and 20% of the global demand of generic drugs. Indian pharmaceutical factories have the ability to scale up their production volume to meet both the domestic and global demand for medical devices and drugs. India is expected to produce Covid vaccines in volume and supply them to the world at affordable prices.
- India’s Ministry of Commerce reports that Indian companies have been exporting products as diverse as surgical equipments, medicines, furniture, electrical machinery, ships, boats, vehicles, plastic, chemicals, steel and aluminum.
- With roads being built, airports and ports being modernized and expanded, new infrastructural projects being initiated, logistics is bound to get more efficient.

Can India take advantage of the Covid supply chain shocks and emerge as an alternative to China? Overdependence on China for supplies is perceived as risky by companies. India has the ability to scale up its production capabilities. As one of the largest countries of the world, it has resources and skilled people to rise up to the need of the hour

*Source: Vijay Govindarajan and Gunjan Bagla, “As Covid-19 disrupts supply chains, will companies turn to India?” Harvard Business Review, 25/05/2020. Accessed on 19.04.2022*



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### **Check Your Progress - 1**

1. Logistics offers tremendous scope for growth of businesses. Identify the statement that is **not** correct regarding logistics.
    - a. Logistics helps cut costs especially during energy shortages.
    - b. Logistics has given companies wider choice of alternatives to maintain costs and service standards.
    - c. Logistics helps increase the shortage of raw materials.
    - d. Logistics helps companies tide over crisis that arises out of disturbed business cycles.
    - e. Logistics helps expedite delivery time of the finished product to customers.
  2. Which method is used by logistics service providers to establish communication with customers and with various elements in the logistics chain?
    - a. Scanning
    - b. Satellite communication
    - c. Artificial intelligence
    - d. Barcoding
    - e. Advertising
- 

### **20.4 Functions in Logistics Management**

Logistics is a complex process, involving several functions. These include: procurement or purchasing, inward transport, receiving, warehousing, stock control, order picking, materials handling, outward transport, physical distribution management, recycling, and returns and waste disposal functions.

#### **20.4.1 Procurement / Purchasing**

Procurement is the process of buying goods and services for the user department based on order specifications given by that department. Procurement begins with sending the purchase order to the supplier. The procurement function involves various activities such as identifying new suppliers, qualifying the suppliers, negotiating terms and conditions of supply, organizing delivery of orders, arranging for insurance, finalizing the mode of payment, and sending the purchase order to the supplier. This function is considered to be a support function in logistics. It also involves monitoring the performance of the suppliers for adherence to quality standards as the quality of inputs in the form of parts supplied by the suppliers, affects the quality of the final product. This, in turn, has an

impact on both customer satisfaction and the revenue of the company. Thus, the effectiveness of the procurement function plays a crucial role in determining the company's competitive advantage.

#### **20.4.2 Inward Transport**

Inward transport is the function in the logistics process in which parts and components are moved for storage in warehouses before they are transported to the places where they are required. Since the direction of movement of the goods is inward (toward the logistics service provider), the function is known as inward transport.

#### **20.4.3 Receiving**

Receiving is the function in which the material is received at the warehouse for storage. When parts and components are received at the warehouse, they have to be checked with the purchase order, inspected for damage, sorted, and stacked according to the date of arrival.

#### **20.4.4 Warehousing**

Warehousing is the function in the logistics process in which the material received for dispatch is stored for various durations of time. The warehousing function serves as an efficient way to balance the demand and supply of goods. It supports the post-production processes of manufacturers by providing space for storing the produced goods prior to sale. For example, products such as electricity bulbs need to be tested to ensure that they work for the duration specified on the package. So, after they roll off the production line and before they are dispatched to wholesalers and retail outlets, the products are stacked in warehouses while they undergo quality control tests to ensure that they meet the prescribed quality standards. During the warehousing period, if any defect is observed in the products being tested, the manufacturer can recall the entire batch from the warehouse. Products such as wine and canned food are other examples of products that require long storage before sale. Such products age with time and fetch the manufacturer a better price if sold after a long period after they are produced. Similarly, in the case of canned food, storing the cans in warehouses helps the manufacturer to ensure that there is no bacterial growth and that the food is safe for human consumption.

Over a period of time, significant changes have taken place in the warehousing function as a result of changes in both the business environment and the demands of customers. Although it was predicted that the warehousing function would become obsolete as a result of just-in-time production, quick response time, continuous flow distribution, and direct store delivery, it continues to thrive as a dynamic function.

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### **Example: JD Logistics, China – The Warehouse with 1.6 Million Orders/Day Processing**

JD Logistics, one of the China's largest online retailer has invested heavily in warehouse automation. The company opened up an intelligent-logistics center in China's Guangdong Province that boasts a single-day processing capacity of 1.6 million orders, powered by a three-dimensional automation system that can organize more than 20 million units of medium-size goods at the same time.

*Source: Chu, F., Saxon, S., Wang, R., Zhao, G. (February 25, 2022). Five things to know about the Chinese logistics market heading into 2022. Retrieved from <https://www.mckinsey.com/industries/travel-logistics-and-infrastructure/our-insights/five-things-to-know-about-the-chinese-logistics-market-heading-into-2022>. Accessed on 18-05-2022*

### **20.4.5 Stock Control**

Stock control in logistics is the function that involves keeping track of the amount of stock present in the inventory. The stock control manager is responsible for stock-taking and stock-checking, receipt of the stock at the warehouse, and inspection of the stock to check for loss or damage during transit. Efficient stock control ensures the smooth operation of the logistics process.

### **20.4.6 Order Picking**

Order picking is the function of picking or retrieving products stored in the warehouse from their respective storage locations to cater to customer orders. Since order picking comprises almost 60% of the labor activities in the warehouse, it is considered to be one of the most labor-intensive activities in the warehouse.

Logistic service providers seeking to increase the efficiency of their order picking function try to minimize the expected order picking time - that is, the time consumed in the various components of order picking. In all, there are four components of the expected order picking time. These include: travel time, processing time, administrative time, and waiting time.

In warehouses, products are stored in containers, which are stacked on top of each other, with aisles or passageways between columns of containers. Travel time is the time the worker takes to travel within the aisle and across aisles in the warehouse to locate the order. Processing time is the time the worker spends in various tasks at the location point of the order. It includes tasks such as searching for the order, extracting it from the various others that are present at the same location, and then documenting the order. Administrative time is the time the worker spends at the start and finish of an order picking tour. It includes the time spent on administrative and start-up tasks. Examples of start-up tasks include collecting a pick device such as a pick up cart or trolley, and obtaining the list of orders to be picked from the storage locations. Waiting time is the time between the completion of one order picking tour and the start of the next.

#### **20.4.7 Materials Handling**

Materials handling is the function that involves the movement of materials required for operations. The movement may take place from the receiving area to the storage location, from the storage location to the dispatch location, etc. Materials handling mainly involves loading, unloading, and storage of material. Efficient materials handling ensures that material is transported without delay or damage. It ensures the constant flow of material and its availability when needed. Efficiency in materials handling helps in reduction of operations cost, effective utilization of men, material, and storage space, effective stock management and control, and effective rotation of the stock, ultimately resulting in reducing material wastage.

#### **20.4.8 Outward Transport**

Outward transport is the function of dispatching material to meet the user requirements. It involves activities such as matching the material with the order requisition, and checking the material for packaging and any damage.

#### **20.4.9 Physical Distribution Management**

This function in logistics management involves all those activities that help in the delivery of the finished goods to the customers. Physical distribution management involves the design and administration of systems that will help regulate the flow of materials and finished goods from the warehouses to the customer.

#### **20.4.10 Recycling, Returns, and Waste Disposal**

This function comprises the reverse logistics process. While the logistics process moves materials and goods from the manufacturer to the customer, reverse logistics is the process in which the materials and goods move from the customer back to the manufacturer. This may happen in four situations – one, when the goods comprise material or parts of material that can be recycled to produce the same product (for example, paper, glass, polythene bags, etc.); two, when the products are defective and have to be returned to the company; three, when the product is transported in packaging or containers that are returned to the manufacturer to use for sending a fresh batch of products (for example, Bibo water cans, Coca-Cola, Pepsi bottles, etc.); and four, when the waste generated from the product has to be effectively disposed of by the manufacturer or a third party firm to prevent it from causing harm to the environment.

#### **20.4.11 Carrying and Forwarding Agents its Operators**

##### **Who is C&F Agent?**

C&F are those people whose services are involved in clearing and forwarding operations from one place to another. For example, India being a large country, companies operating pan India will have at least one C&F agent in each state. In

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other terms, we can also say that C&F are those people who are appointed by the manufacturer to further distribute goods in that particular state or area. C&F agents are an essential link for the manufacturers to the outer world.

Usually, there is a contract between the manufacturer and the C&F agent on the terms and conditions of the business and also the commission entitled to C&F agent. A C&F agent, normally, undertakes the following activities on behalf of manufacturer –

- Receives goods from the factory
- Warehouses the goods at his location
- Receives orders from the stockist or stores
- Dispatches the goods through the authorized transporters
- Maintains the record of dispatch and the stock available at the warehouse
- Collects timely payment from the stockist and orders new goods from the manufacturer.

C&F agent acts as a representative of the manufacturer in the state. For example, if a customer finds some fault in the product which he has purchased recently, he can go back to the shopkeeper to either exchange or return the product. Shopkeeper in turn can go back to dealer or the stockiest. But the dealer or the stockiest can't go back to the manufacturer for many reasons. So, they go back to the C&F agent, who represents the company in that state or the area.

Let us have a look of some typical supply chain examples from the C&F viewpoint –

**C&F agent has three major point of sales, they are –**

1. Super Stockist–
  - a. Super stockiest has small stockiest under him or her in both urban and rural areas.
  - b. These small stockists supply the goods to wholesaler, and retailers in turn, sell the goods to the customers.
2. Stockist–
  - a. At times, a stockiest can directly contact C&F for goods.
  - b. He in turn will supply them to wholesaler and retailers, who will further sell the goods to customers.
3. Cooperative Stores–
  - a. These stores directly purchase the goods from the C&F and sell them to the customers.

C&F agent supplies to wholesaler and distributor, and at times, directly to the retailer as well. These retailers can be small kirana shops, to local grocery stores to supermarket to hypermarkets as well.

Some C&F agents deal with international manufacturers. They fulfill various delivery commitments made by the exporter to the importer. They facilitate smooth and trouble-free passage of the cargo from the manufacturer to the destination. These agents work closely with the exporter right from the receipt of the offer.

#### **20.4.12 Importance of C&F in Modern Logistics**

Modern logistics involves planning, creating and monitoring flows of goods and information. Logisticians need to understand and conceive business processes to ensure smooth operation. Logistics has always been an indispensable part of daily life. It ensures that goods and merchandise reach the locations where they are needed.

In our daily life, we come across a number of logistics activities, either directly like COD, delivery from our online shopping, or receiving a pizza from Dominos, or indirectly, e.g., when we see the word “logistics,” supply chain management” in a super market or a hyper market or through “contract logistics” when we see a truck traveling on the highway or carrier bogies on the railway track. However, logistics is much more than parcel delivery or freight forwarding.

A product also contains numerous logistics services by the time it reaches the consumer. For example, a company requires logistics support in production planning, material procurement, product assembly and delivery of the finished item.

*“Logistics must ensure that a recipient is supplied from a point of origin in accordance with his requirements with the correct product (in quantity and variety), in the right condition, at the right time and in the right place at minimum cost.” (Pfohl, H.-Chr., 2004)*

C&F agents are like a passage through which the product travels from producers and manufacturers to ultimate consumers. They are routes through which the products, information, and the finances flow. An effective C&F agent is always of strategic advantage for the company. Selection of C&F agent and management of C&F agents are, therefore, important elements in a company's competitiveness. C&F agents are also important from a public policy perspective since they employ a large number of people and are critical to the unhindered availability of essential items and other products to customers.

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There is also a new line of C&F agents i.e. online channels and vending machines. They have a high level of novelty compared to direct marketing or network marketing channels. C&F agents are evaluated using three major criteria:

- i. Effectiveness
- ii. Efficiency
- iii. Adaptability

A major challenge for C&F agents is to keep the channel members motivated to support the principal vendor,

### **20.4.13 Functions of C&F**

Every production and retail company depends on C&F for distribution of products and procurement of raw materials for production. One look at the functional areas of C&F agents shows the diverse range of logistics services and opportunities. These extend from transport handling and storage of products through standardized courier, express and parcel services to customer-specific logistics solutions (contract logistics). As a result of such activities, customized car doors can be delivered directly to an auto-maker's production line at right time. Globally networked C&F agents offer specialized solutions for the logistics of large events or for the temperature-controlled shipments of exotic fruits from the Caribbean to Europe.

Some of the major functions of C&F agents are –

- Unloading and proper stocking of goods.
- Maintaining warehouses in good condition with required infrastructure.
- Delivery of goods as per SOP.
- Preparing the invoice as per the company price list and permitting discounts as per the policy
- Maintaining stock records
- Proper storage and handling of goods
- Collection of payments from the stockist
- Forwarding the payments to the manufacturers
- Maintaining staff for smooth functioning
- Maintaining physical record of accounts, challans, vouchers, receipts, invoices/bills and all other papers and documents that may be required for proper and efficient transactions of the company's business.

#### 20.4.14 Types of C&F Operations

Major types of C&F operations are –

**Road Freight Forwarder** - A freight forwarder, forwarder, or forwarding agent, is a person or company that organizes shipments for individuals or corporations to get goods from the manufacturer or producer to a market, customer or final point of consumption.

**Consignment Agent** - A consignment agent's role is to receive goods from a party (the consignor) for the purpose of sale. The ownership of the goods remains with the consignor and the agent sells the goods on behalf of the consignor, according to his instructions. The agent will then deduct his commission from the proceeds of sale received and transfer the remaining monies to the consignor.

**NVOCC Operator Service** - NVOCC (Non-Vessel Operator Container Carrier) denotes freight forwarder that functions as a carrier and assumes responsibility for the shipments without operating their own vessels. The NVOCC division takes care of Full Container Load (FCL) and Consolidation Loads (LCL) on an agency basis. The division maintains a good working relationship with all the serving lines.

**Sea Freight** - Sea freight includes, port to port or door to door service. The transit time must meet industry standards. Sea fleet operators offer a range of services to meet their clients' needs. Based on client's demand, they transport half a container, a motorcycle or a 45,000-liter tank, or general cargo, dangerous goods or hazardous cargo.

**Railway Freight** - Rail freight transport includes all freight transportation carried by rail. Several different forms of rail freight transportation exist. They are characterized by three different products.

The rail freight operators, generally, propose three means of transportation - Single wagon, Blocking of full train and intermodal.

**Freight forwarder** - Firm specializing in arranging storage and shipping of merchandise on behalf of its shippers. It usually provides a full range of services including: tracking inland transportation, preparation of shipping and export documents, warehousing, booking cargo space, freight consolidation, cargo insurance, and filing of insurance claims.

**Land freight service** – Land freight services focus on both domestic and international movement of goods by land guaranteeing the satisfaction of customers with cost-effective, reliable and on-time delivery solutions. All aspects of the transportation process including information exchange, management and operations are effectively and efficiently linked to offer flexibility and transparency.



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Key features –

- Full Truck Loads (FTL) and Less than truck loads (LTL) services
- Full infrastructure all border points – Inter Country and Inter State
- Finished goods distribution
- Pick & Pack
- Merge in Transit
- Retail Distribution
- Vendor managed inventory
- Return Program

### 20.4.15 Major Logistics Companies in India

Some of the multi-national logistics companies operating in India are –






1. **TNT Express** - TNT Express, a global leader in logistics solutions, was established in year 1946 by Ken Thomas in Australia. They served in almost every country including India. TNT Express started shipping and logistics operations in India in the year 1994.
2. **DHL** – DHL is among the top logistics company in India. DHL is a part of the leading network which delivers solutions to all logistic needs from shipping to courier services.
3. **All Cargo Logistics Ltd** - All Cargo Logistics Ltd. is a multi-national brand which provides logistics solutions. The company has almost 300 offices worldwide and global footprints in more than 160 countries.<sup>1</sup>
4. **Agarwal Packers and Movers** - Agarwal Packers and Movers is an India-based logistics company. Agarwal Packers has transportation, warehouse and packaging business. The company recently started international operation for material shifting and shipping.
5. **Gati** - Gati is one of the top logistics companies in India. It has a network of distribution and supply chain solution. Gati has a strong presence in South Asian countries including China, Singapore and Hong Kong.
6. **DTDC (Desk to Desk Courier and Cargo Ltd.)** - DTDC is the largest domestic distributor in Indian market. It was established in the year 1990. DTDC offers various logistics services which includes international, domestic and premier services.
7. **Blue Dart** - Blue Dart is a Chennai-based company started in the year 1994 providing shipping solutions to more than 220 countries and territories. Blue Dart is an ISO 9001-2008 certified company which offers express package and courier services.

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<sup>1</sup> <https://www.hdfcsec.com/hsl.research.pdf/Allcargo%20Logistics%20-%20Initiating%20Coverage%2022072021.pdf>, July 22<sup>nd</sup> 2021

8. **First Flight** - First Flight was established in the year 1986 with first three offices in Kolkata, Delhi and Mumbai. First Flight is offering courier services to more than 220 countries.
9. **FedEx** - Globally recognized shipping brand FedEx has existence in more than 220 countries and territories. FedEx delivers more than 3.6 million shipments every day.
10. **Global Express Services** - Global Express Services is a well-known name in courier industry. The company was established in the year 1888.

Some of the Indian logistics companies are –

Agarwal Packers and Movers	Small firm founded in 1987, with a simple name, “Agarwal Household Carrier”. Today, they are the largest movers and packers in India.	<b>AGARWAL</b> PACKERS & MOVERS LTD. (India's most awarded mover) AN ISO 9001 : 2008 CERTIFIED COMPANY
Ashok Leyland	For over six decades, Ashok Leyland has been moving people and goods, touching millions across 50 countries.	
Atlas logistics.co.in	Atlas logistics is the most innovative company that provides comprehensive logistics solution.	
CTC Freight Carriers Pvt. Ltd	CTC Freight Carriers Pvt Ltd is a freight transportation and warehousing services company	
DTDC	DTDC serves over 240 international destinations.	
Falcon Freight Link	The first stone of Falcon India was laid down in 1989 as a custom house agent. After getting the successful support from their clients, they laid down the second stone of Falcon Freight Link Pvt. Ltd. Today, it is an international freight forwarder.	

Contd....

## Block 5: Distribution Management

First Flight	First Flight Couriers came into being on Monday, 17th November 1986. It began with the setting up of three offices at Kolkata, Mumbai and Delhi.	 First Flight Couriers Ltd.
Global Express Services	Global Express Services offers a robust, well-rounded suite of international logistics services to companies doing business in Asia, Europe, the Middle East	 globeexpressservices® (OVERSEAS GROUP)
OM Logistics Ltd	Om Logistics Ltd., is the flagship company of Om Group. It has been instrumental in providing innovative and value-added solutions for Indian corporate and multinationals.	 OM LOGISTICS LTD. Making Business Simple (An ISO 9001: 2008 Certified Company)
Safexpress	Safexpress is the 'Market Leader' and 'Knowledge Leader' of the Indian supply chain & logistics industry.	 SAFEXPRESS THE COMPLETE LOGISTICS SOLUTIONS Distribution Redefined
SAL Logistics	One of the most popular and well-equipped freight forwarders and freight service providers in Delhi.	 SAL LOGISTICS PVT. LTD. SEA • AIR • LAND
Transocean Express Logistics	Transocean Express Logistics Private Limited is a company promoted by Indian logistics professionals to provide integrated logistics solutions in India.	 TRANSOCEAN™ Express Logistics
SCAF	Safe Clearing and Forwarding Services Private Limited provides services ranging from shipment tracking to cargo management with a disciplined approach to work.	
Hindustan Logistics Pvt Ltd.	Hindustan Logistics has set its platform in developing multimodal transport operations, freight forwarding, LCL consolidation & deconsolidation, break bulk, documentation and custom house agents.	 HINDUSTAN LOGISTICS PVT. LTD.

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**Check Your Progress - 2**

3. Factors such as identifying new suppliers, organizing delivery of orders and finalizing mode of payment, fall under one of the functions of logistics. Choose the correct option.
  - a. Outward transport
  - b. Physical distribution management
  - c. Receiving
  - d. Procurement
  - e. Logistics
4. Which of the following statements is wrong about warehousing?
  - a. It is an efficient way to balance the demand and supply of goods.
  - b. It provides space by storing the produced goods prior to sale.
  - c. It stores the materials for dispatch for a fixed period of time.
  - d. It helps store perishable products without damaging them.
  - e. Warehousing is an important aspect of supply chain management.
5. Which of the following refers to the act of retrieving of finished goods from warehouses and supplying them to customers?
  - a. Stock control
  - b. Sales returns
  - c. Order picking
  - d. Outward transport
  - e. Inward transport
6. Which aspect of logistics was expected to become obsolete as a result of innovations like direct store delivery?
  - a. Warehousing
  - b. Just-in-time production
  - c. Purchasing
  - d. Continuous flow distribution
  - e. Transportation

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**20.5 Importance of Communication in Logistics**

With businesses moving from a production-driven or manufacturing-oriented economy to a service-driven economy, there has been a concurrent shift in the emphasis of companies from transportation to communication. Speed, service, and decisiveness have become the basis for competition amongst various companies. Businesses are forced to take up measures that facilitate speed and

## Block 5: Distribution Management

decisiveness in order to ensure their survival in the new economy. The increasing demand for a shorter cycle time and reduced costs have made companies focus more and more on improving their communication process. Communication becomes all the more important in a vital function such as logistics management because it conveys the actual status of goods and products to the various groups of people involved in logistics. It helps logistics service providers to improve their service by keeping a closer watch on inventory management and to take the necessary steps to avoid losing customers.

Satellite technology has assumed a key role in facilitating logistics service providers to establish communication links with their customers as well as with the various elements that make up the logistics chain of processes. The speed of service delivery and quality of service have become major factors in deciding the competitiveness of these companies. For example, when a customer places an online order for a product, say a microwave oven, he expects the oven to be delivered at his doorstep as quickly as possible. The speed with which one logistics company transports the product from the manufacturing or warehouse location to the point of delivery helps it gain a competitive advantage over its competitors. Customers also want to remain updated on the status of the delivery during the transit of the product. Logistics companies are taking the help of satellite technology to provide this information to customers.

The use of satellite technology and sophisticated hand-held devices by the drivers of UPS helps customers obtain real time information about the shipment of the product. These hand-held devices, known as Delivery Information Acquisition Devices (DIAD), make it easy for the drivers of the UPS cargo vehicles to record and upload the latest information regarding the status of the shipment delivery onto the UPS network. They also help the driver remain in constant contact with the company and be instantly updated on information regarding changes in pickup schedules, traffic patterns, etc.

### **Example: C.H. Robinson - Real-Time Shipment Location and Status Insights**

C.H. Robinson is the world's largest third-party logistics provider. It leveraged Intel® Connected Logistics Platform and Microsoft Azure IoT Central for real-time shipment location and status insights. It provides tracking traceability around the world. It also allows to customize tracking traceability based off of the frequency with which it wants to see it and all the non-traditional metrics associated to their sensors in the form of temperature, light and shock.

*Source: (June 16, 2022). Global Freight Market Insights. Retrieved from <https://www.chrobinson.com/en-in/resources/insights-and-advisories/global-forwarding-insights/>. Accessed on 27-06-2022*

## **20.6 Technology in Logistics**

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Technology has become a key factor by which logistics companies are gaining a competitive advantage over other players in the industry. Advances in technology in the form of WAP phones, Personal Digital Assistants (PDAs), etc., allow customers of logistics companies to keep track of the shipment's progress along the logistics chain of processes.

Logistics companies rely on various types of technology such as electronic data interchange, artificial intelligence, expert systems, communication technology, and bar coding and scanning to improve the quality of their service.

### **20.4.16 Electronic Data Interchange (EDI)**

Electronic Data Interchange is the exchange of routine business information between distantly located computers. The exchange of information takes place in a standardized electronic format through the use of networks such as the internet. Unlike in e-mail where the exchange takes place between two persons, the exchange of information here takes place between computer applications. Also, unlike e-mail which facilitates the exchange of only textual messages, EDI facilitates the exchange of structured business messages such as invoice forms, purchase orders, etc.

There are several benefits associated with the EDI form of information exchange. It eliminates the traditional manner of exchanging business information by mailing of printed business forms. So it reduces paperwork, minimizes costs, improves the response time of organizations, and increases their efficiency and effectiveness. Also, EDI requires only a one-time input of data, with the EDI system taking care of the rest of the procedure. Thus, fewer inputs are required, resulting in fewer errors, faster data transfer, and better streamlining of business processes.

Electronic data interchange is the technology that underlies the just-in-time processes of companies such as Walmart and FedEx. For example, Walmart uses EDI to have a just-in-time arrangement with its suppliers that helps the retailing giant avoid problems of cash flow management, storage costs from warehousing, and losses due to spoilage, theft, and obsolescence. Similarly, FedEx uses EDI to track its various shipments during their transport through its network of land, air, and ocean-based carriers. The technology enables the company to communicate with its customers, regulatory agencies, as well as the various carriers within its network. It also allows the customers to track down the status of their shipment.

### **20.4.17 Artificial Intelligence**

Artificial Intelligence (AI) is automated intelligence. It reproduces human intelligence in an automated or machine form. It refers to the ability of a machine to process data and respond with human-like intelligence. Artificial Intelligence

## **Block 5: Distribution Management**

systems can carry out all those activities that involve human intelligence such as understanding language, learning, reasoning, problem-solving, etc.

Artificial Intelligence is the technology that underlies the process of logistics scheduling. Logistics and materials handling processes offer many situations for the implementation of artificial intelligence systems. Some of these include management assessment or audit, inventory planning and control, purchasing analysis, production planning and scheduling, freight rate negotiation, transportation routing and scheduling, and management information systems.

### **20.4.18 Expert Systems**

An expert system can be defined as an artificially intelligent computer program that makes use of the knowledge and problem solving logic of human experts to solve problems at an expert level. Expert systems can be applied to logistics management to solve operational and strategic level problems in all functional areas of logistics. They aid in decision-making, strategic planning, and fusing information gathered from diverse sources. In this way, they help companies gain a competitive advantage over others.

Expert systems have certain advantages over conventional decision support tools used in logistics management. They can process both qualitative as well as quantitative information. They can process even partial information and come up with a solution much faster and at a much lower cost than logistics decision support tools. The display of expert problem solving logic by expert systems in logistics management allows logistics managers to improve their decision-making abilities. Further, expert systems provide solutions that can be transferred, duplicated, and documented. Thus, the use of expert systems in logistics management allows companies to apply expert logistics knowledge uniformly throughout the firm.

Authorizer's assistant is an example of an expert system at American Express Co., the New York-based company, which transformed itself from a freight and valuables forwarding business to a financial services company.

### **20.4.19 Communication Technology**

The communication technology that the logistics service providers use plays an important role in helping them achieve a competitive advantage over others in the industry. What makes the quality of information support a vital aspect in achieving a competitive edge is the need for logistics service providers to have a tighter control over their operations. With faster response time being the demand of customers nowadays, logistics service providers seek efficient information and communication systems that are directly linked to the physical flow of goods. Having such a communication system will allow them to forecast, plan, organize, and monitor the operational processes involved in the logistics function and prepare them to handle any disruptions that might occur in the flow of goods.

Logistics service providers use various methods to communicate with the various elements in the logistics chain of functions and with their customers. These methods include satellite communication using WAP enabled phones, pagers, handheld devices such as Delivery Information Acquisition Devices (DIAD), Radio Frequency Identification (RFID) technology, specially designed package delivery vehicles, and global communication and computer systems.

Some logistics service providers use advanced wireless communications in their operations. For example, UPS uses wireless technology for communication between its fleet operators and drivers. UPS's highway rigs are equipped with global positioning systems, which help the company to pinpoint the vehicle's position via satellite. Even in case of a vehicle breakdown, the global positioning systems installed in the highway rigs help the company to exactly identify the location of the stranded vehicle. The company can then send another vehicle to the location if a priority pick-up is to be made. The global positioning systems also help the company to inform the police of the exact location of its vehicle in the event of hijacking of its rig.

**Example: Maersk's Robust Communication Technology Bring Efficiency into Supply Chain**

Maersk's Destination Supply Chain Management (DSCM) solution makes use of technology tools including radio-frequency identification (RFID), global positioning satellite (GPS) and BLE Beacons make it easier to track shipments and deliver them on time. It provides complete visibility - from the point of origin to destination; keeps track of goods all through the journey and has intermodal and in-country logistics in place allowing to optimise routing and bring efficiency into supply chain – end-to-end.

*Source: (05 May 2021). 6 Unique Ways To Tackle The Blind Spots With The Right Supply Chain Solution. Retrived from <https://www.maersk.com/news/articles/2021/05/05/6-unique-ways-to-tackle-the-blind-spots>. Accessed on 18-05-2022*

#### **20.4.20 Barcoding and Scanning**

Barcodes are a series of black and white stripes printed on labels glued to items, and provide a unique identification to these items. Barcodes work on auto data capturing technology, which is based on reflective optics. The black and white stripes in barcodes absorb and reflect light rays in various intensities, and thus, help identify the product.

Barcodes require a scanner for reading the code. The barcode scanner reads the barcode on labels and converts the black and white stripes into a series of letters and numbers. These are then passed on to a computer.

Although barcoding began first in the grocery industry, there is now no industry that is untouched by it. Wherever we go, whether to a supermarket, library, or a greeting card store, barcoding seems to have pervaded every business, even to the extent of replacing the traditional method of pricing goods and products.



## **Block 5: Distribution Management**

There are several benefits of using barcodes for product identification. For example, in logistics management, barcodes help track shipments of packages in warehouses. Barcoding results in improved data accuracy, consistency, improved efficiency, and improved inventory and asset management.

**Data accuracy** – Barcoding leads to a significant reduction of human error in data entry. It is possible to achieve 99% data accuracy by scanning barcodes instead of manually entering numbers. Thus, barcoding ensures data credibility in organizations and with organizations laying more and more emphasis on 100% accuracy in operations, it is assuming an important role in helping organizations achieve this objective.

**Consistency** – Following a standardized method of barcoding symbolizes and labeling ensures that the capture and relay of product information is universally consistent -- that is, the information conveyed by the barcode is understood and accepted across the world.

**Improved efficiency** – Barcoding helps personnel to carry out tasks much faster and with greater accuracy. Thus, it improves the efficiency of personnel in organizations. Further, by converting manual tasks into electronic processes, it eliminates the possibility of human error.

**Improved inventory and asset management** – Labels containing specific information about the product are affixed on the product, container, or pallet at the end of the manufacturing process. Scanning the labels provides the shipping department with information regarding the exact inventory from which the product originated, as well as the exact date and time at which the products left the warehouse. These labels contain both human-legible information and barcode information. While human-legible information describes the product characteristics, packaged quantity, name of the manufacturer and that of the customer, if it is known, the barcode information provides internal information such as production line number, serial number, quality control information, etc.

Barcoding is expected to be soon replaced by radio frequency identification software devices. These devices depend on the use of radio frequency signals to identify items. This technology can be used in warehouses to automatically identify and locate items during picking.

Exhibit 20.2 gives suggestions to manufacturing and service companies to overcome the supply-chain disruptions and demand fluctuation challenges posed by the Covid-19 pandemic.

### **Exhibit 20.2: How can Companies Fight Supply Chain Disruptions caused by Covid Lockdown**

The Covid-19 (a highly infectious disease caused by Corona virus) pandemic has impacted the lives of people in many ways. The number of infections and fatalities due to infections have increased manifold.

*Contd....*

The economic impact on account of the prolonged lockdown is equally devastating. Manufacturers and traders have made huge losses and lost livelihoods because of disruptions in supply chain. Absence of demand for many services and products due to change in lifestyle during lockdown period has brought the shutters down for many businesses. Many other firms are struggling to cope with the supply-chain challenges posed due to restrictions on movement of flights, trains and buses. Given below are some ways through which businesses can overcome the challenges posed by the historic supply chain shocks posed by the pandemic.

- Firms need to prepare for both the short-term and long-term market environment.
- As a first step, firms need to take stock of existing inventory of spare parts and after-sales stock along the value chain. The after-sales stock may be necessary to keep production going and ensure delivery to customers.
- Companies need to make a list of critical components and other supplies that are critical for production. The origin of these supplies and the level of disruptions with respect to place of origin must be carefully studied. The risk level of relying on the sources must be assessed and where required, the purchase department must identify alternative sources of supply.
- Further purchase teams of firms must carefully study the available logistics capacity and disruptions caused by lockdown restrictions. Emphasis must be laid on accelerating customs clearance to build a safe inventory level. If needed, the firm must explore alternate modes of transport to enable transportation of supplies.
- Firms need to make a realistic assessment of final-customer demand. This should be the time during which companies must discourage panic buying behavior of customers.
- Based on a realistic assessment of demand, firms must optimize production and distribution capacities. Work schedules for workers need to be planned in a staggered way to avoid any situation where there is scope for spread of infection.
- As far as final distribution of finished products is concerned, firms must try to establish direct-to-customer channels of communication.

A crisis created by a pandemic could increase the demand for certain goods and reduce the demand for certain other goods. Businesses need to analyze customer purchase patterns, study customer data and assess whether the demand signals that they are getting are of a short-term or long-term nature. The marketing and sales team should use its industry experience and all the data analysis tools to predict demand based on reliable demand signals. Demand should be predicted on an ongoing basis and production and supply of finished goods must be planned accordingly

*Source: Knut Alicke, Xavier Azcue, Edward Barriball, "Supply-Chain Recovery in Corona virus Times – Plan for Now and the Future", McKinsey, 18/03/2020. Accessed on 19.04.2022*

## **20.7 Streamlining the Logistics Process**

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Intense activity in the logistics arena was witnessed during 1990-2000. The re-engineering that occurred in the logistics pipeline during this period, the growing popularity of the concept of supply chain management, and efficient customer response led to great deal of excitement in logistics firms. Streamlining the logistics process became necessary in order to maintain the efficiency of the logistics management function.

Companies began to realize the immense savings that could result from an efficient logistics network. Logistics also played a vital role in the success of companies, making it all the more important for them to focus on developing an efficient logistics network. In order to increase the efficiency of the logistics process, streamlining it became essential.

In an effort to streamline the logistics process, it should be designed backwards from the end-user to the manufacturer. There should be free and open communication among the logistics partners and communication should flow both ways. Further, the role of every partner in the logistics process should be clearly defined. The logistics process should be transparent in order to avoid bottlenecks and problems in the flow of materials and information. However, this does not mean that one does not have to prepare for contingencies. Rather, the potential for exceptions, problems, and contingencies should be recognized and measures to counter them are built into the process.

A streamlined logistics process is one that is designed from both a strategic and a tactical viewpoint. The strategic design states the purpose and the plan of the logistics process. It also identifies the various players and demarcates their roles and responsibilities. The tactical design then determines the details of various stages that will help the logistics process function efficiently.

Logistics managers should address the following points while streamlining the process:

- i. The importance of the logistics management process varies in different industries. Logistics managers should, therefore, take into consideration the costs involved in terms of transportation costs, and information technology or inventory costs, while determining the design and operation of the logistics process.
- ii. It is essential for logistics managers to understand the needs and requirements of every partner in the logistics process. This helps them forecast the needs of their partners in the logistics function, to ensure that the right products are positioned at the right warehouse at the right time, and that complete and full orders are delivered on time. Internal communication and teamwork makes this possible.
- iii. Every customer expects complete, accurate, and on-time delivery of his order. Logistics managers should ensure that the delivery of orders takes place to the customer's satisfaction. This will help in making the customer

view the company as a reliable and valued supplier. In order to attain this goal, logistics managers must take steps to reduce the cycle time of the logistics process. Reducing the cycle time will make the company agile and more responsive to customer needs. Logistics managers must also take steps to communicate the logistics process within the company, both in a general sense as well as in a logistics specific way, to key customers. This will allow them to ensure that these customers are aware of what, why, and how things are done in the logistics process. In order to ensure complete, accurate, and on-time delivery to customers, logistics managers also need to analyze the efficiency of their distribution network in terms of location of their warehouses, and whether the locations are appropriate to enhance the effectiveness of the logistics process.

- iv. Streamlining the logistics process requires that logistics managers communicate to the suppliers as to what and how things are done in the logistics process and the firm's expectations of them. Logistics managers can take measures to understand the suppliers' processes and coordinate with them to devise ways to improve the effectiveness of their (suppliers') processes. Thus, it is essential that they do not disregard suppliers' needs in their efforts to optimize the logistics process.
- v. Considering the lead-time required for international sourcing and transport of materials and the impact of these on the firm's inventory, it becomes essential for logistics managers to know about the suppliers' operations and the cycle time for the logistics process. The large distances and lead-times required for international sourcing make it necessary for logistics managers to ensure that there are always some materials flowing through the pipeline, or in transit. This also helps them overcome the surplus and gaps in inventory availability and replenishment. Further, logistics managers need to know about the shipping schedules and to adopt a multimodal approach toward flow of materials. That is, rather than concentrating on only one mode of transport, an alternative mode of transport can also be used to avoid surplus and gaps in availability of material.
- vi. Streamlining the logistics process also calls for reducing the number of suppliers. This not only reduces the complexity in the logistics process but also offers the benefits of consolidated volumes and leveraging.

**Example: DHL's Optimal Well-Utilized Cardboard Boxes Streamlining the Logistics**

DHL is a German logistics company providing courier, package delivery and express mail service. It makes use of Artificial Intelligence (AI), that saves costs and emissions by optimizing packaging of shipments for Supply Chain customers. Even though this kind of solution might sound relatively simple at first, providing packing instructions for individual e-commerce shipments in real time is actually quite complex.

*Contd....*

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A fully automated software solution helps its customers optimize the utilization of existing pack sets with the power of artificial intelligence. Based on the products, volumes and sizes in question, the software not only suggests the optimal size of the outer packaging, it also provides individual, visual instructions on how to ideally utilize the space inside the box. According to initial calculations, an optimally pre-configured and well-utilized set of cardboard boxes can save as much as 50 percent in superfluous shipment space. This greatly reduces the number of truckloads, allowing commercial customers to save costs not only with regard to oversized cartons and filling material, but also shipping, by eliminating unnecessary transports.

*Source: (April 13, 2022). Artificial Intelligence Saves Costs And Emissions By Optimizing Packaging Of Shipments For DHL Supply Chain Customers. Retrived from <https://www.dpdhl.com/en/media-relations/press-releases/2022/artificial-intelligence-optimizing-packaging-for-dhl-supply-chain-customers.html>. Accessed on 18-05-2022*

### Activity 1.1

Blue Star planned to launch a new model of window air conditioner in Indian market. The logistics manager at Blue Star, however, felt that before the product was introduced, there was a need to streamline the existing logistics system, which was not efficient. How do you think streamlining the logistics process can be done at Blue Star? What are the points to be taken into account by the logistics manager before going ahead with this exercise?

**Answer:**


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### Check Your Progress - 3

7. Which statement given below does not convey the importance of communication in logistics?
- It helps to keep information away from customers.
  - It keeps a close watch on inventory management.
  - It conveys the actual status of goods and products.
  - It helps to have shorter cycle time.
  - It enables higher customer satisfaction.

8. Logistics companies rely on various types of technology like EDI and AI. Expand the two terms – EDI and AI.
  - a. External Data Interchange and Advanced Intelligence
  - b. Electronic Data Interchange and Artificial Intelligence
  - c. External Data Interchange and Artificial Intelligence
  - d. Electronic Data Interchange and Advanced Intelligence
  - e. Electronic Data Exchange and Advanced Intelligence
9. Logistics managers should understand certain principles while streamlining the logistics process. Identify the statement that does not hold true regarding the streamlining of the logistics process.
  - a. There is an immense scope for savings in a streamlined logistics setup.
  - b. Streamlining of logistics process aids in reducing the number of suppliers.
  - c. Streamlining of logistics process is designed from strategic and tactical point of views.
  - d. Streamlining the logistics process should be done using similar methods for companies in different industries.
  - e. Different industries have different logistics models.
10. Food World supermarkets focus on data accuracy, consistency, efficiency, and better inventory management and asset management. Choose a suitable technology in logistics management that would yield these benefits for Food World.
  - a. Global positioning system
  - b. Delivery information acquisition devices
  - c. Barcodes and scanning
  - d. Artificial intelligence
  - e. Radio frequency

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## **20.8 Strategic Issues in Logistics Management**

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In business, a strategy guides organizational activities and operations toward the achievement of organizational goals. Logistics has begun to change the way companies are doing business. Not only are they under increasing pressure from other players in the supply chain but they also have to meet the demands of customers for efficient service. Therefore, in order to efficiently manage their supply chain capabilities, businesses are realizing the need to focus on their

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logistics strategy as well as on the need to integrate information technology and advanced logistical approaches into their business operations.

The operations and activities of logistical firms play a critical role in the movement of materials from the manufacturer to the end consumer. The logistics strategy examines logistical operations and activities and provides logistical firms with a sense of unity, direction, and purpose. It determines the purpose of their operations and activities in terms of their long-term objectives, planning, and resource allocation priorities. The logistics strategy helps firms involved in the business to attain a competitive advantage over others by helping them to promptly respond to the opportunities and threats in the business environment.

A firm's logistics strategy involves complex decisions pertaining to the structural aspects and infrastructural aspects of logistics firms. Structural decisions pertain to the structural features of logistical firms such as logistics process technology, operations process technology, facilities network, and vertical integration of the supply chain. Infrastructural decisions, on the other hand, pertain to the non-structural aspects of logistical firms such as the policies, procedures, and control systems. Further, structural decisions have a long-term impact and are irreversible in nature while infrastructural decisions are of a tactical nature.

### **Example: Uber Freight Strategizing Logistics Management**

Uber Freight, a subsidiary of Uber Technologies, Inc. (NYSE: UBER), in November, 2021 announced that it has completed the acquisition of Transplace from TPG Capital for approximately \$2.25 billion. The transaction brings together Uber Freight's vast network of digitally-enabled carriers with Transplace's trusted shipper technology and operational solutions, ultimately creating one of the world's leading logistics technology platforms to meet the rapidly evolving needs of shippers and carriers alike.

*Source: (November 15, 2021). Uber Freight Completes Acquisition of Transplace. Retrieved from <https://www.transplace.com/resources/news/uber-freight-completes-acquisition-of-transplace/>. Accessed on 18-05-2022*

## **20.9 Local and Global Challenges in Logistical Management**

Logistics is essentially a process of managing inventory with the aim of achieving customer satisfaction. Customer satisfaction is what differentiates a successful company from others. Customers today demand not only quality products, but also speed and quality of service. Logistics is the function that helps companies in attaining growth by bringing about cost reduction for them as well as by helping them attain customer satisfaction. Challenges faced by logistical firms may be both local and global in scale, depending on whether the company is operating locally or has a global reach.

**Example: Brexit Unravelling New Global Challenges in Logistical Management**

New regulations around Brexit in 2021, present challenges for the logistics industry mainly in European road transport. Brexit, invokes lots of new paperwork, but it is the uncertainty of the situation that presents the most severe pain point for stakeholders. Only shippers with an agile and transparent supply chain succeed in keeping up with new Brexit regulations, which are continuously developing and subject to change with little warning. Businesses based in the UK and those with supply chain partners in the UK should strongly consider transportation management solutions with core capabilities of shipment tracking and documentation storage.

*Source: (February 4, 2021). 5 Logistics Challenges For 2021 (And How To Beat Them).*

*Retrieved from <https://www.alpegagroup.com/en/resources/blog/5-logistics-challenges-for-2021-and-how-to-beat-them/>. Accessed from 19-05-2022 Local Challenges*

The aim of all firms involved in logistics management is to achieve customer satisfaction. And in their attempts to satisfy the customer, logistical firms are becoming increasingly aware of the challenges that face them. Some of the challenges are discussed here.

**Integration of logistics activities**

Most operations in logistical firms are carried out in a segregated manner. The logistics process involves the activities of various personnel such as the order entry manager, warehouse manager, traffic manager, claims manager, etc. Most often, these personnel carry out their work in isolation. Customer satisfaction being the goal, companies involved in logistics should ensure that these various personnel work together with each one of them being aware of the totality of the logistics function. Logistical efficiency thus requires integration of the various activities associated with the logistics process.

**Lack of qualified personnel**

Moreover, the personnel involved in logistics management today lack the skills required to handle the breadth of the business. Not only is there a dearth of expertise in managerial positions but firms are also facing inadequacy of efficient line and staff labor. Companies in future will require specialized expertise in each of these aspects. Thus, qualified human resource is one of the challenges that logistical firms face.

**20.9.1 Global Challenges**

Logistics firms operating on a global scale face many more challenges than those operating locally. The global logistics challenges are primarily in terms of four Ds – Demand, Distance, Documentation, and Diversity. Global logistics firms



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have to cater to greater demand, serve greater distances, ensure more extensive documentation, and take into consideration greater diversity in terms of culture as well as requirements. These and other global challenges faced by logistics firms are listed as follows:

### **Distance**

Since global logistics involves distribution of materials across countries, it involves greater distances to be covered. This, in turn, means longer pipelines, greater lead-time and more inventory. Since the materials that need to be transported amount to large volumes, it calls for better logistics management by logistics managers.

### **Modes of transport**

While domestic logistics involves transport by means of road or rail, distribution of materials across countries requires entirely different modes of transport. Global logistics involves transport on surface (water) and by air. This, in turn, requires the logistics managers to be equipped with an entirely different set of knowledge and skills in order to understand the intricacies involved in conference and non-conference rates, containers, ports, schedules, and sailings.

### **Documentation**

Transport by surface and by air requires extensive documentation as well as knowledge of the likely hurdles in import and export customs clearance. In order to meet this challenge, logistics managers have to either develop the expertise in-house or obtain it from a third party or intermediaries.

### **Coordination of intermediaries**

In global logistics, several intermediaries are involved in the process of transport of materials. These may include transportation companies, warehousing firms, customs personnel, and even banks. The involvement of so many intermediaries in inter-continental movement of material makes the process even more complicated and gives rise to the possibility of more delay points. Thus, logistics managers need to ensure greater coordination and communication and exercise greater monitoring than is required for domestic logistics.

### **Cultural differences**

The cultural differences across countries have an impact on the design and implementation of logistics management. Language is the most important of cultural differences and poses a problem in global logistics with respect to communication, both within, as well as beyond the company. The need to develop product labels, advertisements, and product manuals in the local language of the country leads to product proliferation, making inventory management difficult.

### **Government/Political differences**

Differences in regulatory constraints are a natural consequence of the global movement of materials. Therefore, global logistics managers need to be aware of the local rules and the regulations, customs, duties and taxes of the country to which they are transporting the materials. Due to the effect of these aspects on the design and administration of the logistics system, it becomes absolutely essential for logistics managers to be familiar with these aspects.

### **Globalization of firms**

With the increasing globalization of firms across the world, logistics managers are faced with the challenge of having to widen their scale of operations to match the globalization efforts of the manufacturing firms. In order to achieve customer satisfaction, logistics firms now have to ensure that they meet the time, place, and availability demands of customers globally.

### **Flexibility and speed**

Customers across the world are demanding speed and flexibility in delivery of products. In order to cater to this need, logistics firms have to streamline their internal processes, modify their policies, and integrate their ordering and order fulfillment processes. Further, logistics managers also have to keep track of the changing trends in business, such as the increasing scope of e-commerce, and cater to the rapid turnaround expectations of customers who make small quantity online purchases.

### **Supply chain integration**

Logistics firms today are finding it increasingly necessary to integrate their operations internally as well as externally. Internally, the firms seek to integrate along horizontal processes, whereas externally, integration with the suppliers and customers has become necessary. This integration can be achieved by the implementation of technology such as Enterprise Resource Planning, and through collaborative initiatives.

### **Green logistics**

While traditional logistics seeks to organize activities for forward distribution, the rising concern over environmental protection and the manufacturing objective of minimal impact on the environment has led to the manufacture of recyclable and reusable products. These environmental considerations have, in turn, given rise to the concept of 'Green Logistics', also known as reverse logistics, reverse distribution, or reverse-flow logistics. Green logistics involves the transport of waste generated from manufactured products and the movement of used materials back to the manufacturer. Thus, logistics managers have to exercise the same amount of care to plan the reverse flow of products -- from the consumer end to the disposal end -- as they do in forward distribution.

## Block 5: Distribution Management

### 20.9.2 SAP in Logistics Management

All companies want to exert maximum benefits from their logistic management. They require their logistic management system to be technology advanced. Most of the companies use two basic types of software –

1. Standard Business Application Software (SAP)
2. Expensive Enterprise Resource Planning (ERP)

This software encompasses the entire logistic process of the company starting from purchasing the raw materials to warranty of service of items sold. This involves cost and time.

SAP is the largest software supplier in the world. SAP delivers scalable solutions that enables the best practices in logistic industry. SAP continuously develops new products as per the dynamic conditions of the market and maintains a competitive advantage.

There are seven major components to logistics functions in SAP. These components are:

1. **Materials Management** - The component includes purchasing functionality, inventory movements, accounts payable and the material master file, which contains the information on all materials and services used at a company.
2. **Sales and Distribution** - The Sales and Distribution component incorporates the processes from customer order to the delivery of the product to the customer. The component includes sales functions, pricing, picking, packing and shipping.
3. **Quality Management** - Quality Management component is used to ensure quality of company's products. The functions of this component include planning and execution of quality inspections of purchased and finished products.
4. **Plant Maintenance** - The Plant Maintenance component is used to maintain the equipment that is used in the production of company's finished products. The component focuses on the planning and execution of preventive maintenance on equipment and tools used in the production process.
5. **Production Planning** - The Production Planning component manages the company's production process. The functions of this component include capacity planning for a company's production, Master Production Scheduling (MPS), Material Requirements Planning (MRP) and the shop floor functions of producing a company's finished products.
6. **Customer Service** - The customer service component manages a company's service. It caters to repairs and warranties. Items can be sent back for repair or visits made by staff to customer facilities. If a company makes finished products that are sold with warranties, then the SAP customer service component will help a company to service and repair those items with maximum efficiency.

7. **Warehouse management** - The Warehouse Management component helps companies to accurately manage inventory and maximize storage capacity. This component can reduce time it takes to place and remove items from the warehouse by suggesting the most efficient location to store a material and the most efficient way to place and remove that material from the warehouse.

There are some other additional facilities that integrate with logistics such as –

- a. Transportation Management
- b. Batch Management
- c. Handling Unit Management
- d. Logistics Information System
- e. Variant Configuration
- f. Engineering Change Management
- g. Project Systems
- h. Environment Health and Safety (EHS)

These areas are applied in the software depending upon the requirement of the company.

### 20.9.3 Benefits of having SAP in Logistics Management

The following are the benefits of SAP in logistics management:

1. Increase inventory turnover and reduce markdowns through greater visibility, execution insight, and utilization of inventory across all channels.
2. Ensure customer satisfaction through superior product availability, smart fulfillment decisions, and smoothly executed processes.
3. Improve efficiency and response times with advanced warehousing and global transportation processes using real-time alerts and exception management.
4. Increase the visibility of the entire flow of merchandise through the company, in order to plan.
5. Execution capacities from purchasing to the point of sale.
6. Reduce logistics costs by automating traditional warehouse and distribution operations.

#### **Example: KN Drinks Logistics Harnessing the Expertise and Knowledge of the SAP**

KN Drinks Logistics is a specialist drinks-only service provision. KNDL store and distribute alcoholic and soft drinks to supermarkets (Primary Operations), pubs and clubs (Secondary Operations) throughout the UK. Responsive SAP Business Suite (SAP ECC) managed services for supply chain and operationally intensive specialist 3rd Party Logistics Service Provider (LSP) KN Drinks Logistics.

*Contd....*

## Block 5: Distribution Management

KN Drinks Logistics is making use of SAP for more than a decade now and during this time it has brought the expertise and knowledge of the SAP landscape into KN Drinks Logistics business, understood its processes and ways of working and supported it through a variety of initiatives, system changes and support incidents.

*Source: (November 26, 2021). SAP Business Suite Managed Services for Application Support. Retrieved from <https://blog.rocket-consulting.com/case-studies/sap-kndl-supply-chain-logistics-support>. Accessed on 19-05-2022.*

### 20.9.4 Indian Logistics Infrastructure

**Logistics infrastructure is dependent on availability of infrastructure –**

1. Road Network
2. Rail Network
3. Sea Port
4. Airport

1. **Road Network:** Road network at 5.89 million km (2019), in India, is second largest road network in the world. India has 1,76,818 km of state highways and 1,36,440 km of national highways.<sup>2</sup> About 95 percent of roads are district and rural roads. It transports more than 60 per cent of all goods and 85 percent of total passengers in the country. Road transportation has significantly increased over the years due to improvement in connectivity between cities, towns and villages across country.
2. **Rail Network:** India has world's fourth largest railway network. The total route length of the network extends to 1, 26,366 kms (2020), making it the largest railway network in the world. As of March 2022, Indian Railways operates 13,452 passenger trains and 9,141 freight trains. Indian Railways' revenue was US\$ 23.30 billion in FY22.<sup>3</sup>
3. **Sea Ports:** India is the 16th largest maritime country in the world, with approximately 7,517 km long coastlines. As of 2022, India has 217 ports. Out of these 217, 12 ports are considered as major ports. The total traffic at major ports in India reached 704.93<sup>4</sup> million tonnes in the financial year 2020. The Government of India has been developing SEZs (Special Economic Zones) comprising steel plants, coal-based power plants and oil refineries. To support expansion and growth, Indian government has allowed Foreign Direct Investment (FDI) of up to 100 per cent in this sector. A 10-year tax holiday to enterprises that develop, maintain and operate ports, inland waterways and inland ports has also been granted to facilitate accelerated growth in sea ports in the country.

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<sup>2</sup> [https://morth.nic.in/sites/default/files/Annual%20Report%20-%202021%20\(English\)\\_compressed.pdf](https://morth.nic.in/sites/default/files/Annual%20Report%20-%202021%20(English)_compressed.pdf)

<sup>3</sup> <https://www.ibef.org/industry/indian-railways>, April 2022

<sup>4</sup> <https://www.ibef.org/industry/ports-india-shipping/>, May 2022

4. **Airports:** India's civil aviation industry is aiming to become the largest aviation market by 2030. As of 2017, India has 29 international airports and 114 domestic airports with scheduled commercial flights.<sup>5</sup> Currently, it is the ninth-largest civil aviation market. In 2019, number of domestic air passengers witnessed a marginal growth of 3.74%<sup>6</sup> and touched 144.17 million passengers. In 2020, due to the covid-19 pandemic, aviation regulatory body suspended air travel leading to closure of all airline operations. Even though airlines have commenced operations on specific routes, airline traffic is estimated to witness a 45% to 50%<sup>7</sup> fall in 2020. All airlines companies have witnessed negative growth.

#### 20.9.5 Present state of Logistics Infrastructure in India

**The status of current logistics infrastructure in India is as given below:**

- i. Lack of sustained investment in planned infrastructure like warehouses, transport centers, ICDs etc.
- ii. Cold chain infrastructure is very sporadic. The concept of "Integrated Cold Chain" is non-existent. Major investments on these infrastructures have come from Government agencies like CWC, SWC, CONCOR etc.
- iii. Current private sector initiatives are small and sporadic.
- iv. Private sector warehousing is of poor quality, small, fragmented and does not meet infrastructure standards.
- v. Lack of quality standards or benchmarks infrastructure creation.

#### 20.9.6 Key Demand of Logistic Sector in India

Urgent need for air cargo processing space, in light of cargo capacity enhancement at airports and arrival of wide-bodied jets capable of carrying substantial cargo at an economical cost. Urgent need to create modern agro warehouses. This would be critical for sustaining agriculture.

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#### **Check Your Progress - 4**

11. Logistics firms face many global and local challenges in achieving customer satisfaction. Select the local challenge from the options given below.
- a. Government and political differences
  - b. Lack of skills in employees
  - c. Supply chain integration
  - d. Flexibility and speed
  - e. Cultural and social differences in environment

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<sup>5</sup> [https://www.aai.aero/sites/default/files/basic\\_page\\_files/list%20of%20airport%20bilingual.pdf](https://www.aai.aero/sites/default/files/basic_page_files/list%20of%20airport%20bilingual.pdf)

<sup>6</sup> <https://www.livemint.com/news/india/domestic-air-passenger-traffic-growth-falls-to-3-74-in-2019-11579510228941.html>

<sup>7</sup> <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/air-passenger-traffic-likely-to-fall-by-45-50-in-fy21-icra/articleshow/76181349.cms?from=mdr>

## **Block 5: Distribution Management**

12. The transportation of material across the globe requires accurate knowledge of different rules and regulations in different countries. In this context, select the appropriate factor relating to global challenges in logistics.
- Cultural differences
  - Modes of transport
  - Supply chain integration
  - Government/political differences
  - Technological environment in various countries
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### **20.10 Summary**

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- 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.
- 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.
- There are several reasons for the overriding importance being given to logistics by businesses across the world. These reasons include, wider availability of alternatives to maintain cost and service standards, need for location of retail outlets closer to the market, the growing complexity of product lines, the increasing shortage of raw materials, and the perceived need for an effective system of computerized inventory control.
- Logistics is a complex process and involves several functions such as procurement or purchasing, inward transport, receiving, warehousing, stock control, order picking, materials handling, outward transport, physical distribution management, recycling, and returns and waste disposal functions.
- 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.

### **20.11 Glossary**

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**Bar Code:** A symbol consisting of a series of printed bars representing values. A system of optical character reading, scanning, and tracking of units by reading a series of printed bars for translation into a numeric or alphanumeric identification code.

**COD:** Cash on delivery is a type of transaction where the payment is made at the time of delivery rather than in advance credit.

**Contract Logistics:** Contract logistics combines many logistics functions into a complex service package that is based on the customer's individual needs and suppliers' needs. Suppliers of these services are called third-party logistics providers, or 3PL.

**ERP:** Enterprise Resource Planning (ERP) is a suite of software that is used for planning and managing across the company or enterprise. ERP software covers sales, accounting, production, inventory management, quality, plant maintenance, transportation and other business processes. SAP and Oracle are examples of current Enterprise Resource Planning (ERP) software.



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**Expert System:** A computer program that uses knowledge and reasoning techniques to solve problems normally requiring the abilities of human experts.

**Export:** To sell goods and raw materials to another country.

**Just-In-Time (JIT):** An inventory control system that controls material flow into assembly and manufacturing plants by coordinating demand and supply to the point, where desired materials arrive just in time for use.

**Materials handling:** The physical handling of products and materials between procurement and shipping.

**NVOCC:** (Non-Vessel Operator Container Carrier) denotes freight forwarder that functions as a carrier and assumes responsibility for the shipments without operating their own vessels

**Purchase order:** A document used to approve, track, and process purchased items. A purchase order is used to communicate a purchase to a supplier. It is also used as an authorization to purchase. A purchase order will state quantities, costs, and delivery dates. The purchase order is also used to process and track receipts and supplier invoices/payments associated with the purchase.

**Radio Frequency Identification (RFID):** Refers to devices attached to an object that transmit data to an RFID receiver. These devices can be large pieces of hardware the size of a small book, like those attached to ocean containers, or very small devices inserted into a label on a package. RFID has advantages over barcodes such as: the ability to hold more data; the ability to change the stored data as processing occurs, does not require line-of-site to transfer data and is very effective in harsh environments where bar code labels won't work.

**Radio Frequency:** (In warehousing), refers to the portable data collection devices that use radio frequency to transmit data to host system.

**Reverse Logistics:** Reverse logistics covers activities related to returned product, returned pallets and containers, returned materials for disposal or recycling.

**SAP:** Established in 1972, SAP today is the third largest supplier of software that delivers scalable solutions and best practices in the industry. The company's emphasis is constantly developing new products that allow their customers to respond to dynamic market conditions and help them maintain competitive advantage.

**SOP:** Standard Operating Procedure is a document which describes the regularly recurring operations relevant to the quality of the investigation. The purpose of an SOP is to carry out the operations correctly and always in the same manner.

**Vertical Integration:** The potential within an enterprise to incorporate all aspects of management, production, sales and distribution into their business operations. In theory, the greater the vertical integration, the less vulnerable an enterprise is to outside forces. The result of vertical integration is called a vertical marketing system.

### **20.12 Self-Assessment Exercises**

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1. Many organizations firmly believe that an efficient logistics service would help in serving customers more effectively. Discuss the other reasons for growing importance of logistics by giving examples.
2. Logistics is a very complex process that involves several functions. What are the functions involved in logistics management? Discuss.
3. Communication is a vital function in logistics management. Discuss the importance of communication in logistics management.
4. Technology has become a key factor by which logistics companies are gaining a competitive advantage over other players in the industry. What are the various technologies used in logistics?
5. Streamlining the logistics process became necessary in order to maintain the efficiency of the logistics management function. Which factors are required to be considered while streamlining the logistics process? Discuss the strategic issues involved in logistics management.
6. Challenges faced by logistical firms may be both local and global in scale. Evaluate these challenges.

### **20.13 Suggested Readings/Reference Materials**

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1. Venugopal Pingali (2020). “Sales and Distribution Management: An Integrative Approach”, SAGE Publications Pvt. Ltd.
2. Nag A (2017). “Sales and Distribution Management,” McGraw Hill Education.
3. Tapan K. Panda and Sunil Sahadev (2019). “Sales and Distribution Management,” 3rd edition, Oxford University Press.
4. Krishna Havaladar and Vasant Cavale (2017). “Sales and Distribution Management: Text and Cases,” Third edition, McGraw Hill Education.
5. Richard R. Still (2017). “Sales and Distribution Management,” Sixth Edition, Pearson Education.
6. Bholanath Dutta (2020). “Fundamentals of Sales & Distribution Management: Text & Cases”, Dreamtech Press.
7. Gupta S L (2018). “Sales and Distribution Management – Text and Cases AN Indian Perspective,” Laxmi Publications Pvt. Ltd.

### **20.14 Answers to Check Your Progress Questions**

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1. (c) **Logistics helps to increase the shortage of raw materials.**

The growing complexity of product lines and the increasing shortage of raw materials are forcing companies to focus on logistics management to ensure constant and steady supply of raw material to manufacturing locations.

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### **2. (b) Satellite communication**

Logistics service providers use satellite communication to establish communication with customers and with various elements in the logistics chain.

### **3. (d) Procurement**

The procurement function involves various activities such as identifying new suppliers, qualifying the suppliers, negotiating terms and conditions of supply, organizing delivery of orders, arranging for insurance, finalizing the mode of payment, and sending the purchase order to the supplier.

### **4. (c) It stores the materials for dispatch for a fixed period of time.**

Warehousing is the function in the logistics process in which the material received for dispatch is stored for various durations of time.

### **5 (c) Order Picking**

Order Picking is retrieving finished goods from the particular warehouse and supplying them to customers.

### **6. (a) Warehousing**

The warehousing function has gone through a lot of changes due to changes both in the business environment and the demands of customers. It was predicted that the warehousing function would become obsolete as a result of just-in-time production, quick response time, continuous flow distribution, and direct store delivery.

### **7. (a) It helps to keep information away from customers.**

Communication in logistics helps customers to get information. It conveys the actual status of goods and products to the various groups of people involved in logistics. It helps logistics service providers to improve their service by keeping a closer watch on inventory management and to take the necessary steps to avoid losing customers.

### **8. (b) Electronic Data Interchange and Artificial Intelligence**

EDI is an acronym for Electronic Data Interchange, and AI is an acronym for Artificial Intelligence.

### **9. (d) Streamlining the logistics process should be done using similar methods for companies in different industries.**

All the options are true regarding streamlining of the logistics process, except statement (b). While streamlining the logistics process, logistics managers should keep in mind that the importance of the logistics management process varies in different industries.

**10. (c) Bar Codes and Scanning**

Bar codes are a series of black and white stripes printed on labels glued to items, and provide a unique identification to these items. Bar codes require a scanner for reading the code. In logistics management, bar codes are used for tracking shipments of packages in warehouses. Bar coding results in improved data accuracy, consistency, improved efficiency, and improved inventory and asset management.

**11. (b) Lack of skills in employees**

Challenges faced by logistical firms may be both local and global in scale, depending on whether the company is operating locally or has a global reach. Some of the global challenges faced by organizations pertain to distance, supply chain integration, documentation, flexibility and speed, cultural differences, and government/political differences. Lack of qualified personnel is a local challenge faced by organizations.

**12. (d) Government/political differences**

Differences in regulatory constraints are a natural consequence of the global movement of materials. Government/political differences is a global challenge faced by organizations due to the movement of materials from one country to another. Therefore, global logistics managers need to be aware of the local rules and the regulations, customs, duties, and taxes of the country to which they are transporting the materials.

## Unit 21

# Marketing Channels

### Structure

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- 21.1 Introduction
- 21.2 Objectives
- 21.3 Evolution of Marketing Channels
- 21.4 Channel Members and their Roles
- 21.5 Channel Functions
- 21.6 Designing Marketing Channels
- 21.7 Channel Flows and Costs
- 21.8 Summary
- 21.9 Glossary
- 21.10 Self-Assessment Exercises
- 21.11 Suggested Readings/Reference Materials
- 21.12 Answers to Check Your Progress Questions

*“Having a great idea for a product is important, but having a great idea for product distribution is even more important.”*

- Reid Hoffman, an American entrepreneur, venture capitalist, podcaster and author

### 21.1 Introduction

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One of the challenges a company creating a product has to confront is how to drive awareness and visibility for the product. “If we build it, they will come” is a great message as part of the fictitious story but not very dependable as part of commercializing a product. A product having robust and effective distribution helps achieve the needed visibility and value.

In the previous unit, we discussed the importance of logistics in distribution management, various functions in logistics management, the importance of communication in logistics, the technologies and strategic issues involved in logistics management and examined the challenges involved. In this unit we will discuss marketing channels.

Businesses have to be successful in controlling manufacturing costs and in coping with competitive pricing. They then have to look at innovative practices and

methods to make their goods and services available to end users at lower prices and better quality. To achieve this, marketing channels are very important. Businesses are concentrating more and more on enhancing channel performance.

In this unit, we will examine various aspects pertaining to marketing channels. Beginning with a description of how marketing channels evolved, we will discuss channel members and their roles. This will be followed by a description of various channel functions and the dimensions involved in designing marketing channels. The unit will end with a discussion on channel flows and costs involved in different types of channel flows.

## **21.2 Objectives**

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After going through this unit, you should be able to:

- Recognize the evolution of marketing channels.
- Illustrate the role of channel members.
- Discuss channel functions.
- Explain how to design marketing channels.
- Analyze channel flows and costs associated with it.

## **21.3 Evolution of Marketing Channels**

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Behind every product or service that reaches consumers, there are marketing channels in the background, which play a significant role. A marketing channel is a set of interdependent individuals and organizations involved in the process of making a product or service available to the end-user for use or consumption. Also known as distribution channels, these have evolved over time. The evolution has been influenced by market forces, which bring about institutional change, reallocation of functions and changes in relationships among channel intermediaries. These complex forces reshape marketing channels and play a dominant role in their growth. Both customers and competitors stimulate competition.

In other words, the evolution of marketing channels has taken place in tandem with businesses' response to environmental forces. As businesses passed through the distinct phases of the production era, the sales era, the marketing era and the human or relationship marketing era, marketing channels too evolved from being production-oriented to being customer-centric in nature.

The evolution of marketing channels in each of these distinct phases of business evolution is described below.

### **21.3.1 The Production Era**

The late 19<sup>th</sup> and early 20<sup>th</sup> centuries were characterized by technological advancements in the fields of agriculture, transportation and communication.

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Improved plant and machinery provided businesses with the technical capacity to produce goods in large quantities. Moreover, the demand for goods matched their supply. That is, markets had the capacity to absorb produced goods. These factors led businesses primarily focusing on production. Managements laid more emphasis on production volumes, capacity expansion and improvement of plant efficiency.

As businesses evolved, a simultaneous transformation took place in the marketing channel. The role of the sales person underwent a transformation. Earlier, the job of a sales person was not highly regarded. In fact, some people even considered sales a profession without prestige. Businesses too did not give sales importance and held the view that the sales department would automatically sell whatever was manufactured. The salesperson was viewed as a congenial and friendly representative of the company, who could create goodwill for it. Of course, this part of the concept is still in vogue today, where it is the salesperson, who is deemed primarily responsible for customer satisfaction. Selling was considered an art rather than a specialized field requiring skill and knowledge. Sales management meant that there was tight control and supervision over those involved in selling.

### **21.3.2 The Sales Era**

The sales era began in the 1920s, when industrialization and economic prosperity were at their peak. Many dominant factors affected businesses during this period. Continuous improvements in technology and labour efficiency drove production levels to new heights. The mass production that began in the previous era continued in this sales era. However, this period did not witness a commensurate growth in demand for the goods that were manufactured. In the sales era, markets were characterized by ‘consumption saturation’ and failed to generate the required demand at a time when industrial production was at its height. Economic prosperity turned to economic recession (The Great Depression) and worsened the demand situation by the late 1920s. To sum up, the sales era was marked by consumption saturation and economic recession. Businesses responded to the challenge of low demand by developing mass distribution systems that could be used to support huge production volumes.

The sales era also witnessed an elevation of the sales position in the eyes of managements. It was realized that selling involved much more than creation of goodwill and required a lot more than convincing skills and minimum knowledge. This increased the responsibilities of the sales manager from supervision and control of the sales force to recruiting and selecting effective individuals to form the sales force. The term ‘scientific salesmanship’ came into use to describe the application of management and behavioural science principles to the selling process. Managements’ company-oriented outlook was evident from the

expectations they had from sales personnel. Businesses expected sales persons to generate high-volume sales for the company.

### **21.3.3 The Marketing Era**

The 1950s witnessed recovery from economic recession. There was further technological advancement and erosion of industrial boundaries. The technological advancements that took place during the World War II resulted in new manufacturing processes that glossed over industrial boundaries. For instance, the steel industry began to face competition from the plastic industry as plastic items began to replace those made of steel. Similarly, the glass industry faced tough competition from paper-based products. This era was marked by the emergence of more educated and sophisticated consumers and growing concern among companies about rising costs and price constraints. The biggest problem faced by businesses was the abundance of goods in the market coupled with the customers' limited potential for consumption. Businesses realized the need to determine the changing tastes of consumers and to adapt accordingly to survive and succeed. Businesses also had to be wary of market changes and address them. This gave rise to the marketing concept.

The salesperson's role was, therefore, redefined in the marketing era. He or she was thought of as an essential link between the seller and the prospective buyer. The salesperson was required to play the role of a problem-solver, an educator and an empathizer. He or she was required to utilize selling skills to solve the customers' problems, educate them on the ideas contained in the sales proposal and recognize and understand customer needs. The responsibilities included planning, forecasting, setting goals and market development. On the whole, the salesperson was required to manage a market.

With this redefining, the need arose to restructure the role of the sales manager too. The sales manager was freed from the responsibilities of planning, monitoring and controlling the daily sales activities of the sales force. The sales manager began to get more involved with strategic planning, accompanied with a shift in focus from sales volumes to profitability of the company.

### **21.3.4 Relationship Marketing Era**

The present day highly competitive marketplace has forced businesses to first determine the needs and wants of users and then produce goods and services that fulfill the needs. The success of goods and services, and of the company itself, depends on customers.

So, businesses worldwide are focusing on customers – existing and potential – and adopting strategies to attract and retain them. One such measure is relationship marketing which involves the creation of customer loyalty by using an appropriate combination of product, pricing, promotion, distribution and



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service. Relationship marketing is based on the premise that customers need constant attention. It involves understanding customer needs, offering them the relevant product at the appropriate time, having an interactive two-way flow of communication with customers and engaging in a long-term mutually benefiting relationship with them.

A business that focuses on relationship marketing aims to establish a long-term relationship with its customers and serve them over time. It anticipates future needs of customers and attempts to meet these needs. Relationship marketing is a complex selling process.

### **Example: BNP Paribas' Helloiz a True "Partner" of Customer Services in Relationship Marketing Era**

The digital bank of BNP Paribas, has deployed a chatbot that increased their customer acquisition. This bank is now accessible on Facebook Instant Messenger. It captures an already very customary clientele of social networks and on the other hand, allow a considerable savings of time to Hello Bank's sales consultants. This chatbot is called Helloiz. It guides customers on opposing credit card. Another advantage, Helloiz is available 24/7!

As a true "partner" of customer services, the conversational agent allows a decongestion by automating the processing of complaints. Your customer service can then focus on high value-added tasks requiring precise expertise and human interactions. As a true "partner" of customer services, the conversational agent allows a decongestion by automating the processing of complaints. Your customer service can then focus on high value-added tasks requiring precise expertise and human interactions.

*Source: (October 13, 2021). Banks- How Chatbots Can Help Your Customer Relationships? Retrieved from <https://www.ideta.io/blog-posts-english/how-do-chatbots-accompany-banks-in-the-evolution-of-their-customer-relationships>. Accessed on 19-5-2022*

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### **Check Your Progress - 1**

1. While businesses pass through distinct phases, there occurs a simultaneous evolution of the marketing channels. Which of the following does **not** describe a phase of business evolution?
  - a. Focus on production
  - b. Focus on sales
  - c. Focus on marketing
  - d. Focus on pricing
  - e. Focus on social responsibility

2. Which of the following best identifies with the **Sales Era**?
- a. Creation of customer loyalty by offering an appropriate combination of product, pricing, promotion, and service.
  - b. Realizing that convincing skills and minimum knowledge are not enough for the selling process.
  - c. Need to determine the changing tastes of consumers.
  - d. Emergence of more educated and sophisticated customers.
  - e. Need to collect customer information to understand customer tastes and preferences.
- 

### **21.4 Channel Members and their Roles**

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The key constituents of a marketing channel are manufacturers, intermediaries and end users. The term 'manufacturer' refers to the producer of the good or service that is being sold. Manufacturers possess and own the merchandise till it leaves the production site and reaches the next member in the distribution channel. They negotiate with buyers on sales and merchandising terms.

Apart from manufacturers, middlemen form an important element in the marketing channel. They execute some marketing functions more efficiently than producers do. Depending on their role in the distribution process, middlemen can be classified as merchants, agents and facilitating intermediaries. Merchants differ from agents in that the former own the title to the merchandise, while agents do not own the title but negotiate it.

Facilitating intermediaries do not involve themselves with the transfer of title but only act as facilitators. Examples are warehouses, advertising agencies, research agencies etc. Merchants and agents can be further sub-divided into retailers and wholesalers. Retailing includes both store as well as non-store retailing. Common store retailers are discount stores, departmental stores and so on. Non-store retailing involves selling through one to one marketing such as door-to-door sales, mailers etc.

Wholesalers can also be categorized into agents and merchant wholesalers. Agents can be manufacturing agents or sales agents or brokers. Each of these follows a different method of distribution of merchandise to the end user. A manufacturing agent has less control over pricing goods or services compared to a sales agent.

The merchant wholesaler plays a major role in the distribution system. Depending on the extent of services provided, merchant wholesalers can be further divided into service wholesalers and limited function wholesalers. Service wholesalers perform almost all wholesale functions including delivery, credit, storage and

## Block 5: Distribution Management

distribution. Limited function wholesalers carry out a few specific wholesaling functions and specialize in them. End users are also members of marketing channels as they receive the merchandise from the other members and are the final consumers.

### **Example: METRO Cash & Carry, the Leading Merchant Wholesaler of Hyderabad**

METRO Cash & Carry India is a wholesale supplier and serve traders, hotels, restaurants, caterers, corporates, small & medium enterprises, etc. at the most affordable prices. As a leading wholesaler in Hyderabad, METRO Cash & Carry provides a wide variety of products across different segments like grocery, FMCG(fast moving consumer goods), electronics and home appliances, healthcare and fitness, office solutions, clothing accessories, fruits and vegetables, frozen and dairy products and a lot more. METRO outlets in Hyderabad are strategically placed at different locations across the city for shopping convenience and ease of transport.

*Source: (2022). Retrieved from <https://www.metro.co.in/city-wise-metro-outlets/metro-outlets-in-hyderabad>). Accessed on 19-5-22*

### **Roles of Channel Members**

Channel members or channel intermediaries perform various roles in their capacity as a medium of distribution of goods and services. Some roles performed by channel members are described below:

- **Facilitate the search process of buyers and sellers:** Channel members or channel intermediaries facilitate the search process of buyers and sellers and help reduce uncertainty in them. By making products and services available to end users, channel members lower uncertainty among end users regarding product or service availability. In the absence of channel intermediaries, manufacturers too would be unclear about how to reach target markets. Therefore, the presence of channel members spares end users from the cumbersome routine of having to locate manufacturers and buying from them. Likewise, the manufacturer is spared the additional activity of having to reach target customers. For example, in the insurance industry, insurance agents, who sell insurance products of various companies, serve as channel members. In the role of channel member, an insurance agent brings the insurer (the producer) closer to the customer, and at the same time, reduces the uncertainty in customers and makes them aware of available products and insurance policies.
- **Sorting:** Channel members perform the role of sorting where they try to eliminate the differences in the assortment of goods and services offered by the company. Discrepancies occur in this process due to differences in the

pattern of manufacturer supply and customer demand. Manufacturers produce large volume of goods in limited variety, while consumers often seek a wide variety of goods in limited quantity. Sorting by the channel intermediaries involves activities such as sorting out, accumulation, allocation and assorting. In the first, intermediaries break down heterogeneous supplies of goods received from various manufacturers. Arrangement of fruits according to size and quality is an illustration. Accumulation is the opposite of sorting out. Channel intermediaries procure goods from various manufacturers and club together or assemble goods that are similar to form a homogenous supply. One-stop stores are examples of channel members who aggregate goods produced by various sellers at a single location. Allocation refers to the process of breaking up similar supplies into smaller lots. For example, wholesalers break up a homogenous supply of goods and sell small lots to retailers. The latter further break up the lots into smaller quantities to sell to customers. Assorting refers to the process of putting together various products in the form of a package for the purpose of reselling.

- **Making transactions routine:** Typical activities in a transaction involve ordering of goods or services, fulfilling orders and paying for goods and services purchased or availed. Both the buyer and the seller must accept the terms and conditions of the sales transaction. Channel members help in making transactions routine through standardization and automation. Standardization means setting a standard pattern for performing routine activities. For example, standardization of activities such as placing orders, lot size, payment, etc. helps increase efficiency in performance. Likewise, automation of processes such as reordering etc. helps prevent errors. Thus, channel members contribute toward increasing efficiency and minimizing distribution costs.
- **Contractual efficiency:** In a marketing channel, several relationships result from transactions or exchanges that occur between various channel members. A transaction in a distribution channel involves the product flow from the manufacturer to the wholesaler to the retailer, and finally, to the customer i.e. Manufacturer—Wholesaler—Retailer—Customer. At the same time, money might flow through the channel in the reverse direction i.e. Customer—Retailer—Wholesaler—Manufacturer. Channel intermediaries have to optimize the number of exchange relationships required to complete a transaction. If each channel member has to interact with all other channel members, then the number of relationships would be huge. The presence of intermediaries reduces this number and makes the process simpler. However, adding intermediaries beyond a certain point might result in inefficiency as the law of diminishing returns will set in.

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**Check Your Progress - 2**

3. Channel members perform critical roles during the distribution of goods and services. Identify the statement that closely relates with the role of sorting.
    - a. Lowering uncertainty among end users regarding product availability
    - b. Optimizing the number of exchange relationships required to complete a transaction
    - c. Making transactions routine through standardization and automation
    - d. Clubbing of goods to form a homogeneous supply
    - e. Transportation and delivery of goods and services
  4. All of the following are the roles of channel members except one, and which one is that?
    - a. Building customer loyalty
    - b. Making transactions routine
    - c. Contractual efficiency
    - d. Sorting
    - e. Retailing
- 

**21.5 Channel Functions**

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Channel functions involve all the activities by means of which products flow from manufacturer to end users. During the flow, the materials that go into the making of the product are transformed from basic raw material into the final product. Channel functions play an important role in determining channel structure. As the product moves through different stages in the marketing channel, various members in the channel perform various functions.

The most common functions of a marketing channel can be broadly categorized into exchange, supply or logistics and facilitating. Buying and selling are part of the exchange function. The logistics function includes transportation and storage, while facilitating includes standardization and grading, financing, risk bearing and providing market information.

**Example: Apple: Customer Service and Education**

Apple is considered a “click-and-mortar” retailer which means Apple operates both physical and online stores. However, the situation with Apple’s physical retail stores is unique. Rather than being designed for sales, Apple Stores are primarily designed to complement Apple’s eCommerce business which accounts for the majority of total sales.

*Contd....*

In this way, Apple's physical stores function as customer touchpoints that support the overall Apple experience. Since the physical stores aren't necessarily focused on retail, customers can visit Apple Stores without feeling like they need to make purchases. And with customers making more frequent trips to physical stores, Apple is able to drive more brand immersion.

*Source: (12 June, 2020). 5 Examples of Brands with Great Multi-Channel Marketing Strategies. Retrieved from <https://www.nexcess.net/woocommmerce-resource/channel-strategy/>. Accessed on 19-5-2022*

The functions performed by a marketing channel are described in detail below:

**Facilitating the strategic aim of channel members:** Marketing channels facilitate the strategic aim of channel members and help them attain goals. For instance, in a “Bancassurance” arrangement, banks serve as marketing channels for insurance companies. In this role, banks sell insurance products to their customers and help insurance companies fulfill their strategic aim of increasing market share.

**Fulfilling the interaction process:** Marketing channels coordinate the ordering systems, delivery timing and merchandising and help fulfill the interaction process with the customer. Distribution is a complex process involving several members and their activities. Marketing channels, by coordinating all aspects of the distribution process, facilitate the smooth flow of products and goods from producers to consumers.

**Market coverage and product availability:** A marketing channel has to ensure market coverage and the availability of the products. The marketing channel does this by contacting existing and potential customers. It also provides customers support services in the form of credit, delivery and technical advice at prices affordable to customers and profitable to companies. The number of channels required to ensure adequate market coverage depends on factors like market potential, the manufacturer's market share, frequency of purchase of the product, technical knowledge required to sell the product and extent of product differentiation.

**Market development:** Apart from making goods and services available to existing and potential customers and providing support services, the channels also contribute towards expanding the manufacturer's market share by soliciting new business from customers. New customer accounts solicited by the channel intermediary add to the company's market share.

**Technical support:** The extensive use of computers in almost every sphere of society has made the world highly dependent on technology. This dependence has made it mandatory for marketing channels to offer customers the needed technical support in addition to selling the product. Many end users will require technical information on how to use a product. Technical support is required for optimal

## Block 5: Distribution Management

product performance, usage and the important task of maintenance. Technical support is required more for technologically sophisticated products. Hence, marketing channels should ensure adequate technical support to end users.

**Market information:** Marketing channels can be a valuable source of market information. As they directly interact with customers, they play a pivotal role in providing valuable data on customer preferences. However, analysts feel that marketing channels are yet to reach the desired level of performance in providing market information. Most channel members, despite having Electronic Data Processing systems in place, do not have complete and current data required for market analysis and planning.

**Inventory management:** One critical factor that affects customer service and manufacturers' profitability is the inventory levels maintained by marketing channels. The channels have to maintain a certain level of inventory to be able to meet customer demands. This level should be such that liquidity and profitability of the inventory holder are balanced. Excess inventory might lead to blocking of funds, which in turn will affect the marketing channel's profitability. At the same time, inadequate inventory might lead to delayed delivery of products and anger customers. Businesses are now depending on information systems to efficiently manage inventories.

Exhibit 21.2 elaborates on Amazon's competencies in inventory management that contributes in a large measure to its outstanding customer service.

### Exhibit 21.2: Inventory Management at Amazon.com

Amazon.com (Amazon), started in 1995 by Jeff Bezos, was one of the first online shopping sites. Since its inception, it was consistently ranked as one of the best retail sites on the internet. It was regarded as the universal model for successful internet retailing. Amazon owed a large part of its popularity to its excellent customer service, which, in turn, arose from its exemplary inventory management.

In its early days, Amazon added six warehouses to its already existing four warehouses, to take the total to 10. It increased its worldwide warehousing capacity from 300,000 sq. ft. to over five million sq. ft. Since its early days, the company has come a long way and has transformed its warehousing capacity and logistics model to house a range of products and fulfill orders quickly. Amazon launched 'Fulfillment by Amazon' (FBA) in 2006. Launching of FBA helped Amazon to monetize its network by allowing small business owners to benefit from the scale of its network.

By deploying sophisticated information technology to manage an extensive network of warehouses, Amazon is able to effectively manage inventory at various levels.

*Contd....*

The excellent transportation adds to the efficiency and all these make Amazon's supply chain unmatched in terms of efficiency in the E-Commerce world. 'The shop from home' with no hassles whatsoever has become a reality, thanks to Amazon's effective inventory management.

Amazon's inventory management is cost effective because inventory management of some of its products has also been outsourced. 'The not-so-frequently' purchased products are not stored in the regular Amazon warehouses. Amazon promises 'one-hour and same day shipping' to its prime members. Amazon manages the logistics of the products for which it promises speedy delivery. The company is aware that it needs greater control over logistics to deliver these goods on time. Hence, dependence on third-party logistics providers is not prudent in the case of those products for which it promises speedy delivery. Amazon's own vehicles deliver goods on time to fulfill the same-day and one-hour delivery promises made to Amazon Prime customers. Amazon offers different delivery options to its customers: 'Prime delivery', 'same-day-delivery', 'first-class-delivery', 'free-super-saver-delivery'. The company operates different warehouses to fulfill each of these promises made and keep customer satisfaction high.

Amazon's warehouses are strategically located near metropolitan cities. It uses sophisticated technology to forecast demand and the warehouse location and size cater to the demand conditions of the locations. The company uses a push strategy for the products it sells through its own warehouses. Amazon uses 'order-by-order-fulfillment-model' for the products it sells through third party vendors. These different models help the company to control costs and at the same time maximize revenue.

Amazon uses robots and drones for delivery of goods. It has acquired brick and mortar stores to enable convergence of traditional retail and e-commerce strategies. Amazon's continuous innovations in the field of inventory and supply chain management has set new benchmarks making it difficult for competitors to keep pace. The volume of products it handles has brought in huge cost savings on account of economies to scale. To sum up, the huge warehousing and supply chain network, the location of warehouses and segregation of warehouses for fulfillment of different types of customer requirements are some of the important factors that have contributed to Amazon's supply chain success.

*Source: Rick Leblanc, "How Amazon is Changing Supply Chain Management", The Balance, Updated on November 13, 2020 Accessed on 19.04.2022*

**Risk taking:** If the manufacturers were to undertake the responsibility of distributing finished products, there would be exposure to risks such as spoilage of goods in transit or storage, physical damage to goods, misplaced items and product obsolescence. Such risks can result in manufacturers not realizing the full benefits of selling products. Marketing channels, by taking on the responsibility of distribution to customers, reduce manufacturers' risks.



## Block 5: Distribution Management

### Activity 21.1

Retail pharmacists are a regular phenomenon in India. They are a key channel intermediary for various pharmaceutical companies. What functions do these pharmacists perform in the distribution of medical products?

**Answer:**

## 21.6 Designing Marketing Channels

The long-term commitment of a business towards the market affects its choice of marketing channels. The design of a marketing channel is influenced by factors like technological advancement, changing demographics and competition. There are several dimensions to choosing a channel design, which include:

- Channel length -- the number of intermediaries between the producer and the customers.
- Channel breadth -- the number of outlets available to customers.
- The costs involved in selecting a particular channel.

A channel design decision is made taking into consideration the channel structure, channel intensity and the type of intermediaries used at each level. While channel structure refers to the number of levels of channel intermediaries (distributor, wholesaler, retailer), channel intensity refers to the total number of channel intermediaries required at each level. The type of intermediaries at each level may include manufacturer's sales force, manufacturer's representatives or industrial distributors.

### 21.6.1 Channel Structure

The channel structure adopted by a company depends on the number of intermediaries it uses to distribute its products to end users. These intermediaries give rise to channel levels. The length of a channel, described above, differs from consumer markets to industrial markets. The possible channel levels are zero level, one level, two levels and three levels.

In a zero level channel, the manufacturer directly sells to the end customer through door-to-door selling, telemarketing and so on. Companies like Eureka Forbes and Amway reach their customers through direct selling. These companies use a zero level channel to make their products get to customers' hands.

In a one level channel, the manufacturer distributes the products directly to the retailer, who in turn, sells them to end-users. A single channel intermediary – the retailer – exists between the manufacturer and customers. One level marketing channels are mostly used by automobile manufacturers and petroleum companies. For example, Maruti Suzuki directly supplies its cars to dealers, who sell them to customers. Showroom dealers serve as the single channel intermediary for Maruti Suzuki. In the case of petroleum companies like Bharat Petroleum Corporation Limited, Hindustan Petroleum Corporation Limited, etc., the company supplies fuel to dealers, who then sell it to consumers.

In a two level channel, there are two channel intermediaries present between the manufacturer and the customer. These are the wholesaler and the retailer. The manufacturer sells the goods to the wholesaler, who sells them to the retailer. The retailer then sells the goods to consumers. A typical two-level marketing channel is that used by manufacturers of fast moving consumer goods such as Hindustan Lever Limited, Dabur, Bajaj, Godrej, etc.

A three level channel is characterized by the presence of three channel intermediaries between the manufacturer and the customer. The three channel intermediaries in a three level marketing channel are the wholesaler, the agent and the retailer. An agent mediates between the wholesaler and the retailer. These channels are commonly found in the pharmaceutical industry. In this industry, medical representatives act as agents of pharmaceutical companies and persuade retail drug stores to purchase from the manufacturer, drugs manufactured by their company.

In a zero level channel in industrial markets, producers directly sell products to industrial customers. In a one level channel, manufacturers sell the products to industrial distributors who sell them to industrial customers. With an increase in the channel level, the number of intermediaries too goes up.

Products usually flow between channel levels in a forward direction. But, of late, the reverse flow of products has also started to gain prominence. Reverse flow takes place in two circumstances -- one, when the manufacturer opts for product recycling and second, when there is product recall. Many manufacturers have realized the significance of environment friendly manufacturing and have opted for recycling. In recycle management, products flow in a reverse direction from end user to the manufacturer. The reverse flow is generated when the products are returned to the manufacturer after use by the consumer. Examples of such products include soft drinks and mineral water containers and paper products.

A product recall situation arises when a manufacturer requests its customers or distributors to return its products in exchange for a refund, replacement, or return of the product after carrying out necessary modifications or repairs. Several manufacturers have resorted to this owing to defective quality of products

## Block 5: Distribution Management

released in the market. Maruti Suzuki recalled 63,493<sup>8</sup> units of Ciaz, Ertiga and XL6 (hybrid petrol variants) in 2019. In June 2019, Apple recalled '15in MacBook Pro Laptops'<sup>9</sup> due to a battery fire risk. These laptop models were launched much earlier in 2015 and the fire risk came to its notice much later. However, keeping in mind the safety of its customers, the company decided to recall these laptops.

### Example: Channel Structure at Nei Native

Nei Native is a luxury Superfoods and Consumables venture which is available on its own website and also on the various ecommerce platforms like Amazon, Flipkart, Bigbasket, Wellversed, OneGreen, Dilicious. It is also available in brick and mortar stores in Nature's Basket which is a national chain.

Nei Native is also available in gourmet stores in Bombay, Delhi, Pune. It has a tie up with restaurant welfare associations. The company is in touch with farmers markets and various exhibitions

*Source: Ganapathy. Retrived from <https://online.ifheindia.org/evening-with-nitya-ganapathy.html>, Accessed on 27-06-2022*

### 21.6.2 Channel Intensity

Channel intensity refers to the number of intermediaries present in a distribution or marketing channel. The degree of market exposure sought by the company for its products or services is an important consideration while formulating channel policy and determining the number of intermediaries to be used. Depending on the number of intermediaries and the degree of market exposure sought at each level, manufacturers can choose between intensive, exclusive or selective distribution.

Let us discuss this.

#### Intensive distribution

Customers consider the time and place utility while making purchase decisions. Taking this into view, producers of convenience products stock their goods in as many outlets as possible. This is termed intensive distribution. Place utility plays a significant role in selling convenience products. Producers of such products like pens, confectionery, soaps, detergents and cigarettes try to maintain a stock of their products at every possible retail outlet to generate maximum exposure and make it convenient for customers. An intensive distribution policy is driven by the belief that every exposure to a customer is an opportunity to buy, and that the

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<sup>8</sup> <https://auto.economictimes.indiatimes.com/news/industry/total-recall-double-in-2019/73039099> Accessed on 19.04.2022

<sup>9</sup> <https://www.theguardian.com/technology/2019/jun/21/apple-recalls-15-inch-macbook-pro-laptops-battery-fire-risk> Accessed on 19.04.2022

image of the outlet occupies less prominence in the customer's mind compared to the utility offered by the product. In 2019, Patanjali Ayurved's revenue dropped<sup>10</sup> by 10% for the first time since the launch of Patanjali brand in 2006. Patanjali's CEO, Acharya Balakrishna said the company's distribution network was not able to keep pace with the phenomenal growth in sales that the company was experiencing. Patanjali would, therefore, strengthen its distribution network to ensure intensive distribution of its products and services.

**Exclusive distribution**

Producers of some products limit the number of intermediaries handling their product to deliver maximum service quality to customers. They try to develop a superior brand image for their product in the process. This is known as exclusive distribution and is often used in conjunction with exclusive dealing. In exclusive distribution, the manufacturer grants exclusive rights to some dealers, allowing them to distribute its products only in a certain geographical area. In an exclusive dealing arrangement, the manufacturer requires that the dealer should not carry competing lines. Car manufacturers usually have exclusive dealing arrangements with their dealers. In both exclusive distribution and exclusive dealing, it is the manufacturer's responsibility to ensure that the distributor is able to provide appropriate repair, service and warranty handling facilities. Exclusive distribution allows manufacturer greater control over intermediaries in the areas of price, credit and promotion. In turn, they get greater loyalty and more determined selling of their products by the channel intermediary.

**Selective distribution**

The selection distribution policy falls between the extremes of intensive and exclusive distribution. Selective distribution is adopted when the manufacturer lacks the resources to adequately influence the policies of all intermediaries, who can carry a particular product. Instead of diluting the marketing effort by distributing products across a wide range of possible outlets, the manufacturer concentrates on the most promising outlets. In selective distribution, the manufacturer distributes products only to specific retailers selected on the basis of defined criteria.

To fulfill the manufacturer's selective distribution requirements, channel intermediaries require specialized resources to store and market the products effectively. For example, intermediaries distributing frozen food products should have deep freeze facilities to keep the products in good condition. The deep freeze should be displayed prominently so that customers are convinced of the freshness of the product. All retailers need specialized resources to meet the selective distribution requirements of manufacturers. In the particular case of

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<sup>10</sup> <https://economictimes.indiatimes.com/industry/cons-products/fmcg/supply-distribution-could-not-match-fast-growth-at-patanjali-acharya-balakrishna/articleshow/68041253.cms?from=mdr> Accessed on 19.04.2022

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pharmaceutical companies, manufacturers abide by certain ethical standards and ensure that they distribute their products only to intermediaries with capabilities to offer advice on the use and limitations of the product. Such products are, therefore, distributed to pharmacies alone.

The manufacturer also ought to be concerned about the brand image. This should prevent them from distributing their product to intermediaries who have doubtful records or capacities. Some intermediaries may resort to stocking products in discount outlets or displaying them in a functional way, to reduce overheads and the final price, regardless of the damage it causes to the product and its brand image. Therefore, selective distribution to outlets with good facilities, resources and image, is the best means to create a favourable impression about the product in the customer's mind. An example is 'up market' brands of perfumes. Manufacturers of such brands distribute the product to select retailers, whose outlets will help enhance the luxurious image of the brand. Some manufacturers go to the extent of preventing retailers from selling their products on-line.

### **21.6.3 Types of Channel Intermediaries at Each Level**

While designing a marketing channel, the type of channel intermediaries available at each level must be considered. Businesses can choose any from three types of channel intermediaries – manufacturer's sales force, manufacturer's representatives and industrial distributors.

#### **Manufacturer's representatives**

Manufacturer's representatives, also known as manufacturer's sales representatives, account executives or sales engineers sell the manufacturer's products to wholesalers and retailers. They also sell products to other businesses and also to institutions such as hospitals, libraries and schools. Almost every manufacturer uses the services of these representatives to distribute products. Manufacturer's sales representatives may represent more than one manufacturer. For example, a sales representative in the pharmaceutical industry, who sells painkillers manufactured by one company, may sell syringes for another company and vaccines made by a third company. Manufacturer's sales representatives act as agents for manufacturers. They do not work for a base salary but instead receive a fixed portion of the sale as commission for their services. They operate within a specific geographical territory.

#### **Manufacturer's sales force**

Manufacturer's sales force comprises sales persons who are on the company's rolls. They receive a fixed salary. Although the first alternative -- manufacturer's sales representatives -- is an optimal solution for companies that lack capital to invest in its own sales force, there are many companies which prefer a direct sales force. This is because of the inherent flaw in getting the services of

manufacturer's sales representatives. These people usually represent several companies, have to sell all these products. Therefore, they rarely develop product expertise. They cannot devote time to selling the product of one company. This becomes a hurdle for a company intending to increase its sales. A manufacturer's sales force, on the other hand, devotes its time and efforts entirely to selling that manufacturer's products and serves as a powerful tool for the company to increase profits.

**Industrial distributors**

Industrial distributors are independent firms consisting of sales and support personnel. They differ from manufacturer's representatives, in that they take possession of the products they sell and have a partnership arrangement with the manufacturer. Manufacturer's representatives, in contrast, do not take possession of the manufacturer's products. A large portion of the sales in companies like Norton, Pfizer and 3M takes place through industrial distributors. Their use by a firm to distribute its products has its advantages. First, associating with an industrial distributor helps the manufacturing firm to gain access to specialized knowledge about the market, which would have been costly and time-consuming to get on its own. Also, association with the distributor's name and reputation helps the manufacturer overcome initial reluctance among customers about unknown suppliers.

However, there are disadvantages too. For instance, an industrial distributor may just stock the manufacturer's product and might not sell it as enthusiastically as the manufacturer's own sales force would have. Second, high profit margins of the industrial distributor might increase the price at which the product is offered to the customer, resulting in poor response. Third, the use of industrial distributors might distance the manufacturer from the customer.

**Activity 21.2**

The traditional kirana stores have emerged stronger than ever before serving 1.3 billion of the Indian population during the Covid-19 lockdown period. Compared to E-Commerce which serves over 12 million population, kirana stores which offer an assortment of essential goods like milk, rice, pulses and other groceries has emerged the clear winner. Explain the retail business model of kirana stores which has helped them stand tall and deliver essentials to the Indian households.

**Answer:**


**Check Your Progress - 3**

5. Marketing channels also contribute toward expanding the market share of the manufacturer. Which function of marketing channels does this relate to?
  - a. Market coverage
  - b. Market information
  - c. Market development
  - d. Fulfilling the interaction process
  - e. Territory management
6. The design of marketing channels depends upon factors like technological advancements, changing demographics and competition. Select the option that is **not** a correct dimension for choosing a channel design.
  - a. Channel flow
  - b. Channel breadth
  - c. Channel structure
  - d. Channel intensity
  - e. Channel length
7. Identify the correct sequence of flow of goods from the manufacturer to the customer in a three-level channel.
  - a. Manufacturer – agent – wholesaler – retailer – customer
  - b. Manufacturer – wholesaler – agent – retailer – customer
  - c. Manufacturer – retailer – wholesaler – agent – customer
  - d. Manufacturer – agent – retailer – wholesaler – customer
  - e. Agent – manufacturer – retailer - customer
8. Depending upon the number of intermediaries and degree of market exposure desired, manufacturers select different modes of distribution. With which of the following statements does intensive distribution identify best?
  - a. A distribution technique adopted by manufacturers lacking resources to influence policies of intermediaries carrying a particular product.
  - b. Manufacturer requires that the dealer should not carry competing lines.
  - c. Producers stocking their products at every possible retail outlet to maximize the exposure of the product and making the product convenient for customers to buy.
  - d. Limiting the number of intermediaries handling a product to maximize the service quality provided to the customers.
  - e. A distribution technique to promote direct selling of product to consumers.

9. Many manufacturers use the services of representatives to distribute products manufactured by them. All the following options are examples of manufacturer's representatives, except one. Identify it.
  - a. Manufacturer's sales representatives
  - b. Account executives
  - c. Sales engineers
  - d. Industrial distributors
  - e. Manufacturer's sales force
10. From the following, select the correct explanation for selective distribution.
  - a. Rolex watches being sold through a limited number of retail outlets that will help in enhancing the luxurious image of the brand.
  - b. Nirma's distribution manager authorizing a wholesaler to market in a particular area only.
  - c. Maruti Udyog appointing Varun Motors as its dealer for the city of Hyderabad.
  - d. Cadbury's chocolates sold in every provisions store.
  - e. Airways selling tickets through travel and tourism portals.
11. While designing a marketing channel, there are three types of channel intermediaries available. Which statement closely identifies with manufacturer's sales force?
  - a. Workforce taking possession of the products.
  - b. Workforce receiving sales commission and not a fixed salary.
  - c. Workforce devoting fulltime and effort towards a particular company's product.
  - d. Workforce having a partnership arrangement with the manufacturer.
  - e. Workforce employed when there is a surge in demand.

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### **21.7 Channel Flows and Costs**

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Marketing channels ensure smooth flow of goods and services from manufacturers or producers to end users or customers. They reduce the gaps that arise in the flow of goods between channel members. The flow of products between producers, wholesalers, retailers, industrial and household consumers can be forward, backward or two-directional.

A marketing channel comprises a network of activities, which move through the channel in various directions and are aimed at satisfying consumer's needs and wants. It is not essential for all channel members to participate in all channel activities. Some channel members might specialize in the performance of certain



## Block 5: Distribution Management

channel activities and might not be involved in others. Channels can be restructured to eliminate members performing redundant channel activities.

Marketing channels are primarily characterized by eight basic flows, which influence the channel's performance.

These are:

- Possession -- physical exchange of goods
- Ownership -- transfer of title
- Promotion
- Negotiation
- Financing
- Risking
- Ordering
- Payment

**Possession:** Possession represents the flow of goods from the producer to the final consumer through intermediaries. The possession of goods gets transferred from the manufacturer to consumers. Possession flow consists of various activities pertaining to storage of goods and their transportation from one channel member to another. The costs involved are for storage and transportation.

**Ownership:** Ownership flow takes place when the title to the goods passes from one channel member to another during their passage from the manufacturer to the consumer. Usually, possession flow and ownership flow take place simultaneously, as goods move through the channel. The two flows are not always in the same direction.

For instance, in consignment selling<sup>11</sup>, the product might be physically held by the seller but the title or ownership to the goods lies with the producer or manufacturer till the goods are sold. Ownership flow involves costs such as inventory costs for carrying the goods in inventory and opportunity costs incurred by investing in the goods.

**Promotion:** Promotional flows refer to activities that are aimed at making prospective buyers aware of the product features and to convert them into customers. These activities can be taken up by any channel intermediary and need not be confined to the producer or retailers. The costs involved in promotion flow are those incurred for personal selling, advertising, sales promotional, etc.

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<sup>11</sup> Consignment selling involves selling items owned by others. It involves collecting the items for sale from various clients, listing and selling them, and handing over the proceeds from the sale to the respective clients after deducting a certain fee for the seller's services.

**Negotiation:** Negotiation flow occurs when terms of sale and after-sales relationships are discussed and agreed upon between channel members. The costs incurred are measured in terms of time spent on negotiation.

**Financing:** Financial flow usually takes place in a direction opposite to that of physical flow and involves payment for the goods received from previous channel members. Usually, the seller grants some time to the buyer for making payment, even after the physical possession is transferred to the buyer. The costs incurred by the seller involve the loss of income that could have been earned by investing the money receivable, elsewhere. These costs can be incurred by any channel member or even by specialized external agencies like banks and credit card companies.

**Risking:** Risks flow from one channel member to the other along with the flow of goods. Risks can arise because of the perishable nature of the products or adverse price changes in the market. Costs involved are those associated with risk transfer, i.e., insurance, maintenance costs for perishable goods, warranties, repairs etc.

**Ordering and payment:** Ordering and payment flow involves activities pertaining to the purchase of goods and making payment. The costs associated with such flows are incurred for purchase of the products i.e. order processing costs, ordering costs, etc. Payment flows are associated with collection costs and costs due to bad debts. Advancements in technology can reduce costs associated with activities in the ordering and payment flow. For example, the installation of automatic reordering systems helps retailers cut down ordering costs significantly.

As each flow discussed above is associated with a cost, it becomes essential to reduce or eliminate flows that are repeatedly performed. Hence, knowledge of the service outputs required by end users helps the channel manager to efficiently manage channel performance.

**Example: City Beer Store - Streamlining Inventory Ordering and Payment**

San Francisco's City Beer Store is part of a new and growing retail/restaurant/grocery breed. In addition to service—City Beer offers tastings—you can buy beer and other items to take home. This mix of products and services requires a special kind of POS (Point of Sale) system, and highly intuitive, flexible inventory management options, all accessible from one central backend location. To have one system that can handle barcode items for products and food and beverage workflows is both invaluable and a necessity.

*Contd....*

## Block 5: Distribution Management

Craig Wathen, the store owner familiarizes himself daily with his store's inventory, sales, assets and data, whether he physically visits the store or not. Automated inventory tracking system provides inventory management and product mix reports than have directly contributed to increased revenue and cost savings for City Beer Store.

Source: Duffett, B. (May 20, 2020). *Where to Get Beer for Takeout and Delivery in San Francisco*. Retrieved from <https://sf.eater.com/2020/4/17/21225713/beer-takeout-delivery-san-francisco>. Accessed on 19-05-2022

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### **Check Your Progress - 4**

12. In terms of channel flows, what is the term that characterizes the physical flow of goods from the producer to the end consumer through intermediaries?
- Ownership
  - Possession
  - Risking
  - Placing order
  - Making payment for purchase

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## **21.8 Summary**

- A marketing channel acts as a differentiating factor and provides businesses with a competitive advantage.
- Marketing channels comprise several individuals and inter-dependent organizations that facilitate the process of making a product or service available to end users.
- Marketing channels have evolved over time, from being production-oriented to customer-centric. The evolution of marketing channels has primarily been a response to changes taking place in businesses due to the environment.
- Channel members play a dominant role in moving products across the marketing channel. They facilitate the search process of buyers and sellers. They also perform the role of sorting, making transactions routine and contractual efficiency.
- Marketing channels also perform several functions. These involve all activities that facilitate the flow of products from the manufacturer to the end user. As the product moves through different stages, different members in the distribution channel perform the functions of exchange, logistics and other supporting functions.
- Designing an appropriate marketing channel is crucial to the success of a business. The channel design has to be meticulously planned taking into consideration the channel functions and other strategic business objectives.

- The most important elements in channel design are channel structure, channel intensity and the type of intermediaries at each level.
- Marketing channels ensure the smooth flow of products between channel members. In the process, a marketing channel witnesses eight basic types of flows. These are flow of possession, ownership, promotion, negotiation, financial, risk, ordering and payment. Each flow is associated with certain costs. Therefore, it is necessary that marketing channels be designed to eliminate redundancy of flows.

### 21.9 Glossary

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**Brand mark:** The portion of a brand that cannot be expressed verbally such as a graphic design or symbol.

**Broker:** One who arranges transportation and/or clearing of cargo without actually performing the transportation.

**Convenience products:** Relatively inexpensive products that buyers or users choose frequently with a minimum of thought and effort.

**Demographics:** The characteristics of populations.

**Merchant wholesalers:** Independent businesses that buy products from producers and then resell them to retailers and organizational customers.

**Recovery:** The stage of the business cycle in which the economy moves from depression or recession towards prosperity.

### 21.10 Self-Assessment Exercises

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1. The evolution of business over the past 12 decades has been accompanied by suitable changes in the channels of distribution. In this context, discuss the evolution of the marketing channels.
2. Channel members perform various roles in their capacity as a medium of distribution of goods and services. Who are the channel members in the marketing channel? Discuss their role.
3. Channel functions involve all the activities by means of which products flow from manufacturer to the end users. In this context, describe the functions performed by a marketing channel.
4. The design of a marketing channel is influenced by various factors. Explain these factors in detail.
5. 'Marketing channels while ensuring the smooth flow of products between channel members, witness certain types of flows which are in turn associated with certain costs.' Explain this statement.

## Block 5: Distribution Management

### 21.11 Suggested Reading/Reference Material

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2. Nag A (2017). “Sales and Distribution Management,” McGraw Hill Education.
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6. Bholanath Dutta (2020). “Fundamentals of Sales & Distribution Management: Text & Cases”, Dreamtech Press.
7. Gupta S L (2018). “Sales and Distribution Management – Text and Cases AN Indian Perspective,” Laxmi Publications Pvt. Ltd.

### 21.12 Answers to Check Your Progress

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**1. (d) Focus on pricing**

The phases of business evolution are the production era, the sales era, the marketing era and relationship marketing era.

**2. (b) Realizing that convincing skills and minimum knowledge are not enough for the selling process**

Sales era is realizing that convincing skills and minimum knowledge are not enough for the selling process.

**3. (d) Clubbing of goods to form a homogeneous supply**

Channel members perform the role of sorting where they try to eliminate the differences in the assortment of goods and services offered by the company.

**4. (a) Building customer loyalty**

The roles of channel members are making transactions routine, contractual efficiency, and sorting.

**5. (c) Market development**

The channels contribute towards expanding the manufacturer’s market share by soliciting new business from customers.

**6. (a) Channel flow**

The dimensions to choose channel designs are channel length, channel breadth, channel structure and channel intensity.

**7. (b) Manufacturer – wholesaler – agent – retailer – customer**

A three-level channel is characterized by the presence of three channel intermediaries between the manufacturer and the customer. The three channel intermediaries in a three-level marketing channel are the wholesaler, the agent and the retailer. An agent mediates between the wholesaler and the retailer.

**8. (c) Producers stocking their products at every possible retail outlet to maximize the exposure of the product and making the product convenient for customers to buy.**

Customers consider the time and place utility while making purchase decisions. Taking this into view, producers of convenience products stock their goods in as many outlets as possible. This is termed intensive distribution.

**9. (d) Industrial distributors**

Businesses can choose any of the three types of channel intermediaries – manufacturer's sales force, manufacturer's representatives, and industrial distributors. Industrial distributors are independent firms consisting of sales and support personnel.

**10. (a) Rolex watches being sold through a limited number of retail outlets that will help in enhancing the luxurious image of the brand.**

Selective distribution is adopted when the manufacturer lacks the resources to adequately influence the policies of all intermediaries who can carry a particular product.

**11. (c) Work force devoting full time and effort towards a particular company's product**

Manufacturer's sales force comprises sales persons who are on the company's rolls. They receive a fixed salary. They devote their time and efforts entirely to selling that manufacturer's products and serve as a powerful tool for the company to increase profits.

**12. (b) Possession**

Possession represents the flow of goods from the producer to the final consumer through intermediaries. The possession of goods gets transferred from the manufacturer to the consumers.

## Unit 22

# Channel Integration

### Structure

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- 22.1 Introduction
- 22.2 Objectives
- 22.3 Importance of Channel Integration
- 22.4 Vertical Marketing Systems
- 22.5 Types of Vertical Marketing Systems
- 22.6 Benefits and Costs of Vertical Marketing Systems
- 22.7 Horizontal Marketing Systems
- 22.8 Hybrid Channel Systems
- 22.9 Summary
- 22.10 Glossary
- 22.11 Self-Assessment Exercises
- 22.12 Suggested Readings/Reference Materials
- 22.13 Answers to Check Your Progress Questions

*“Don’t push people to where you want to be, meet them where they are.”*

- Meghan Keaney Anderson, VP Marketing, HubSpot

### 22.1 Introduction

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In the previous unit, we discussed the evolution of marketing channels and role of channel members, the aspects to be considered while designing market channels, different types of channel flows, and the costs involved. The present unit is about channel integration.

Every year, trillions of dollars’ worth of goods produced make their way to the end consumers through a variety of channels. Channel members play a major role in distributing the goods and services of the manufacturers to the end-users. These channel members are considered channel partners when they integrate their activities with that of the manufacturer. The principal functions that channel members commonly perform are transfer of ownership of goods, negotiation of titles, and physical movement of products. Wholesalers, retailers, transporters, logistic providers, and distributor agents are channel members who undertake some of these functions. The marketing managers are responsible for taking decisions on the nature and type of channel members to use, the channel design, and the number and kind of channel members through whom the company should

sell or buy. A distribution channel is described in terms of the length, breadth, number, and types of channel members.

In the early 90's the traditional total systems concept of distribution was replaced by the concept of channel integration. Channel integration involves streamlining the distribution process in terms of physical and information efficiency by establishing channel partnerships and strategic alliances with channel members at all levels of the channel hierarchy. Companies have now begun to place greater emphasis on channel integration in order to reduce transaction costs, gain better control over the distribution process, and ensure a reasonable return on investment. Channel integration, where all the members work together as a single entity for their collective success, has become a source of competitive advantage for companies operating in mature markets.

This unit will discuss the importance of channel integration followed by a discussion on vertical marketing systems -- the types, benefits and costs. The unit will also discuss horizontal marketing systems and hybrid channel systems.

## **22.2 Objectives**

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After going through this unit, you should be able to:

- Recognize the importance of channel integration.
- Identify different types of vertical marketing systems.
- Analyze the benefits and cost of vertical marketing systems.
- Define horizontal marketing systems.
- Explain hybrid channel systems.

## **22.3 Importance of Channel Integration**

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Intense competition has forced managers to analyze the different sales management functions in order to identify areas that can be harnessed to gain a competitive advantage. The successful agreements and alliances that companies have entered into with different channel members in recent times have made managers realize the potential of channel integration to reduce costs and improve productivity. Sharing resources and experiences through non-traditional distribution arrangements like channel integration enables companies to convert the customers' need for special services into an opportunity to make profits – something that would not have been possible if the company were operating on its own.

Channel integration is of great significance not only to manufacturers but also to other channel members like retailers. It serves a host of functions in the present-day competitive environment. These include maintaining minimum inventory levels, improving mutual relationships among channel members, reducing transaction costs, helping a company to manage its skills and resources better and



## **Block 5: Distribution Management**

also develop a competitive advantage over its rivals in different markets. Successful channel integration leads to at least a 10% increase in sales due to new business opportunities. Let us look at these aspects in detail.

- Channel integration helps bridge the gaps prevailing between production and consumption. These gaps may be quantity gaps, space gaps, time gaps, and variety gaps. 1) Quantity gap – Manufacturers produce in larger quantities than is possible for an individual consumer to buy. Channel integration provides a means of breaking bulk by dividing the product into smaller consignments for the final consumer. 2) Space gap – Manufacturing location is based on the feasibility to manufacturers in terms of raw materials availability, transport facility, etc. Manufacturing location may not necessarily be the same as that of the customers. Distribution channels help bridge this ‘space’ between manufacturers and consumers. 3) Variety gap – Manufacturers produce a narrow range of products while consumers prefer to have a wide range of products to choose from. The channel members (retailers) in the integrated system source the products from different manufacturers to fulfill this need of customers by providing a wide range of products, with the required width and depth in each product category. 4) Time gap – Distribution channels schedule product delivery in such a manner that the time difference between manufacturing and purchase is small and the product reaches the consumer in the best condition. This can be done through point-of-sale systems and bar coding.
- Channel integration streamlines the physical and information flow among channel members. The exchange of point-of-sale information between the supplier and wholesaler/retailer enables the supplier to manufacture at the level that exactly meets the actual demand for a product in the market. This prevents stock pile-up and duplication of services, which often increase costs by 15% to 20%, and ensures that the manufacturer and the intermediaries carry only the minimum required inventory.
- Channel integration reduces the levels of opportunism generally associated with manufacturer-distributor relationships. It reduces the costs involved in transactions and leads to greater control of the overall distribution process.
- In the case of exports, channel integration reduces the uncertainty, costs, and risks associated with legal agreements and partnerships between the manufacturer and other channel members like import agents or merchants.
- Channel integration is an important component of a company’s marketing channel strategy. The degree of integration can have a significant influence on the company’s possibility of success or failure in an international market. The company can integrate forward to the retailer level to serve the customer or have an arrangement only till the distributor or wholesaler level.

- It is a well-known fact that a single channel member cannot have the experience, resources, and skills to be proficient in and undertake all the channel functions. Channel integration enables the firm to better manage and optimize its limited skills and resources through horizontal or vertical integration along the channel. A symbiotic relationship is established where channel members who are proficient in different channel functions, link up to form an efficient distribution system that is mutually beneficial.
- Integration also affects a company's competitive positioning and strategy in different markets. Control over the distribution channel reduces transaction costs and leads to better coordination across different markets. The company can use this as a competitive advantage to position itself better than its rivals in international markets. On an average, a successful integration of channels helps reduce business opportunities lost (stockout or inability to respond to customer emergencies) by as much as 50% to 75%.
- Integration is also useful since it can be used as a barrier to entry into the market for other competitors, as in Japan. In Japan, the distribution system is multi-layered and close-knit, involving a very high degree of loyalty among the various layers. In such conditions, it is difficult for a foreign operator to forge a relationship with the local channel members to sell their products.
- An integrated distribution channel can be used in a differentiation strategy where a company or channel member in the integrated system can provide a superior product or service offering to the consumers. Channel integration can be used to deliver value to the consumer. Value-delivery and addition can be a source of sustainable competitive advantage to all the members of the channel system. Value perceptions are different for different consumers. For example, some may perceive value in the kind of purchasing environment and experience, and others, in the product accessibility or level of customer service or support. The skill in successful channel integration lies in positioning the value offered in the most profitable manner.
- Promotional campaigns can be coordinated between the manufacturer and the retailer based on the consumer demand and availability of the product. Otherwise, promotional timing may not be aligned with the manufacturing schedule and this may lead to a stockout on account of increased demand.

Developments in technologies like information systems and integrated logistics management have given an impetus to companies to enter into cooperative agreements like channel integration. Volvo GM Heavy Truck Corporation is one company, which used logistics systems to help its dealers in the US to cater to emergency requests for critical components whenever one of its trucks broke down. It set up a warehouse in Memphis, which stocked the full line of truck parts. Under an agreement with FedEx Logistics Services, it arranged to deliver emergency requests from dealers for spares overnight. The arrangement also

## Block 5: Distribution Management

helped the company to reduce its inventory by 15% and to remove three of its warehouses. Channel integration has enabled companies and channel members to pool their resources together and provide a range of product offerings and services to customers.

Channel integration must not be interpreted as the integration of a single distribution channel from manufacturer to retailer for a product. An integrated channel actually involves a large number of companies in different supply channels. Channel integration can be undertaken for the industrial group as a whole. An industrial group may include different distribution channels and a number of manufacturers. An average industrial group includes around 50,000 outlets involving wholesalers, distributors, merchants, service centers, and around 10,000 small, medium, and large companies. Efficient integration of such a large group is possible only with the help of innovative information systems like bar codes, universal price code (UPC) numbers, and Electronic Data Interface (EDI). Network management and connectivity, education and training for all the employees' concerned, sound technical plans and access to systems experts will also help in integrating such a large industrial group.

As we have just seen, there are various advantages of channel integration. But, there are certain issues that may hinder effective channel integration. It is imperative that managers are aware of them. With increasing competition, the need for establishing successful relationships between channel partners has become all the more important.

**Omnichannel Retail:** Omnichannel refers to that retail model where in-store and digital features are optimized to provide an overall and unique shopping experience to customers. In the traditional model, the in-store experience is optimized. The modern customer spends a good deal of his time with digital devices like smart phones. He or she is very technology savvy and wants to have the best of both the channels. A smart omnichannel strategy facilitates a customer to spend more time with the brand. By integrating each touch point, the retailer is able to offer what the customer needs anytime, anywhere through any device.

A proper understanding of these issues can certainly help an organization meet its objectives of sustained profitability and market growth.

### **Example: Sugar's Way to Build Channel Integration**

SUGAR Cosmetics is a cruelty-free makeup brand that operates in more than 130 locations all over India and they have a presence in more than 10000 sales outlets. The company made a strong presence in this massive beauty industry and overcame a severe pandemic by reorganizing the team, slashing expenses, e-commerce push, etc. They also utilized the power of social media in a very effective way.

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Sugar Cosmetic grew from 80 to over 1900 retail touchpoints in only 3 years. They earned a net income of more than Rs. 130 crores in the FY21 and they aim to increase their goal to more than Rs. 200 crore by the end of next FY.

Source: Chandra, S. (April 13 2022). Sugar Cosmetics Success Story – The Cruelty-Free Beauty Brand. Retrieved from <https://thedigitalyug.com/startup/sugar-cosmetics-success-story-the-cruelty-free-beauty-brand>. Accessed on 19-5-2022

### Activity 22.1

Central, the retail chain with a presence in Bangalore, Hyderabad, and other major Indian cities, depends on various channel members like stockists and manufacturers for its business. Why do you think retail chains give importance to channel integration?

**Answer:**


### Check Your Progress - 1

- Which of the following duties **does not** fall under a distributor's purview?
  - Transfer of ownership of goods
  - Negotiation of titles
  - Ensuring customer satisfaction
  - Physical movement of products
  - Storage of goods
- There are various intermediaries between a manufacturer and the end consumer. What is the common term used for such entities?
  - Wholesalers
  - Channel members
  - Retailers
  - Distributor
  - Agents
- The paperboards division of ITC Limited has its manufacturing base in Bhadrachalam, in interior Telangana. By employing suitable distribution channels, which gap is ITC trying to bridge?
  - Space gap
  - Quantity gap

## **Block 5: Distribution Management**

- c. Time gap
  - d. Variety gap
  - e. Quality gap
4. Which of the following statements brings out the importance of channel integration?
- a. It maximizes the inventory requirement for the manufacturer and the intermediaries.
  - b. It enables each channel member to be proficient in all channel functions.
  - c. It increases the level of opportunism in manufacturer-distributor relationships.
  - d. It reduces uncertainty, costs and other risks associated with legal agreements.
  - e. It maximizes the profits of all channel members.
- 

### **22.4 Vertical Marketing Systems**

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Channel integration involves cooperation from various channel members. It may not include ownership of the channel. In Vertical Marketing Systems (VMS), one of the channel members owns the channel or exerts a substantial influence or control over the activities of the members along the channel. This 'channel leader' oversees the functions of channel members and ensures that everyone performs only those functions at which they are good.

A VMS consists of a manufacturer(s), distributor(s) and a retailer(s) pooling their individual strengths together to achieve operating economies or a competitive advantage. VMSs are a common mode of channel arrangement that companies use to overcome intense competition and changing market conditions.

In traditional channel systems, channel members operate at arm's length. Their objective is to maximize individual benefits. In VMSs, channel members work for a specified benefit common to the whole channel system. VMSs were developed with the objective of reducing recurring conflicts and achieving better channel cooperation and coordination. These are achieved through the use of channel plans and policies. Vertical marketing systems are most prevalent and successfully used in the food service industry. Companies like McDonald's and Wendy's have successfully streamlined production, distribution, and retailing into a single efficient system to succeed in the global market.

In a VMS, a channel member either owns other channel members, franchises the others, or influences other channel members to cooperate through the channel power vested with them. Based on these aspects, VMSs can be divided into corporate VMSs, administered VMSs, and contractual VMSs.

**Example: Maruti Suzuki Dedicated Vertical Marketing Integration**

Maruti Suzuki the country's largest carmaker is one of the most successful car company in India. One of the reasons, the brand has managed to break records in terms of sales is its extensive service network. The country's largest carmaker Maruti service network has crossed 4,000 outlet mark across the country, covering 1,989 towns and cities. The auto major said it has added 208 new service workshops in 2020-21, despite tough conditions due to the COVID-19 pandemic.

"We have established a relationship of high trust with customers over the past three decades. The creation of over 4,000 service touch-points is a testimony to our commitment for customer convenience and customer first approach," MSI Executive Director (Service) Partho Banerjee said in a statement. The company has also brought several innovations such as the quick response team, service on wheels, among others, to cater to the different needs of the customers, he added.

*Sources: (March 03, 2021). Maruti Suzuki's service network crosses 4,000 outlet-mark in India; 208 workshops added in FY21. Retrieved from <https://www.businesstoday.in/auto/story/maruti-suzuki-service-network-crosses-4000-outlet-mark-in-india-208-workshops-added-in-fy21-289860-2021-03-03>. Accessed on 19-5-2022*

**Activity 22.2**

Pizza Hut used channel integration as a mode to succeed in various markets. What do you think would have been the various issues faced by the fast food company in integrating various channels?

**Answer:**


**22.5 Types of Vertical Marketing Systems**

There are many ways by which a company can develop a vertical marketing system. The different integration approaches vary in terms of the level of investment, profitability, extent of control, the need to reduce risks, and the bargaining power of the other channel members. The commonly used types of vertical channel systems are the administered type of system, the corporate system, and the contractual system.

**22.5.1 Corporate VMS**

In a corporate VMS, one company owns and operates the other channel members at different channel levels. A company develops a corporate VMS, when it

## Block 5: Distribution Management

intends to produce nearly all of its internal requirements through the corporate VMS. A corporate system is preferred when – the company is confident that it can suitably protect its key processes or trade secrets; accuracy and high quality have to be maintained in the channel activities; the company wants to exercise maximum control on all the related activities; proper coordination and control give a strategic advantage. When the manufacturer owns or conducts operations at the wholesaler or retailer level, the vertical marketing system is said to be forward-integrated. When a retailer or wholesaler plans to operate or control the manufacturing aspects, a backward-integrated system develops.

Certain key variables influence the decision on whether a company should develop a corporate vertical marketing system or not.

Some of these variables are described below:

**Costs involved in operating the system:** The possible profits must not be offset by the costs involved in operating the corporate system.

**Price competition:** The intensity of competition based on pricing influences the decision of a channel member on adopting a corporate VMS. In a corporate VMS, the cost of integrating channel functions may lead to a rise in the price of the end products. If the intensity of price competition between manufacturers of various products is high, the increase in price will lead to a significant loss of market share, offsetting the gains of adopting the corporate VMS.

**Manufacturing capacities:** Increasing the manufacturing capacities must not lead to significant resource constraints.

**Value-addition:** Vertical integration leads to a substantial increase in value-addition along the chain.

**Availability of raw materials or channel partners:** If there are no upstream or downstream channel members who can perform the required functions, the company can develop a corporate VMS.

**Trade secrets:** If the company uses exclusive processes or procedures that are not used by other companies in the industry, then a corporate VMS is preferred.

**Product substitutability:** If the product of the company is similar to that of competitors, corporate VMS is preferred.

**Environmental uncertainty:** If the economic, social, or technical environment is rapidly changing and competitor products are frequently introduced, the company would do better with a corporate VMS.

**Coordination and team selling:** If selling the product requires effective coordination and team selling, efforts on the part of the company representatives and the distributor representatives, a corporate system is ideal.

**Transaction size:** If the order size per customer in a given territory is significant, the company must take advantage of the corporate VMS.

**Performance of channel members:** If it is difficult to measure the productivity or evaluate the performance levels of the channel members, a corporate system will be more beneficial.

Companies like Sears source more than 40 percent of their products from companies that they own partially or fully. Decision-making is more or less centralized, since there is no requirement to consult the other channel members as in the case with the conventional, administered or contractual systems. Despite the loss of flexibility and the heavy investments involved, many companies have developed corporate vertical marketing systems to differentiate their offerings from those of competitors.

### **22.5.2 Administered VMS**

Unlike in the case of the corporate system, in the administered type of vertical marketing system, no channel member has complete control over other channel members. Managers of companies following the traditional distribution systems often attempt to first develop an administered system to compete against companies in corporate vertical marketing systems. The extent to which one channel member exerts an influence or control over others varies. One of the channel members becomes dominant because of expertise, brand image, market share, channel power, etc. In an administered VMS, the level of control is greater than in the traditional distribution system but less than that of a corporate system.

This type of vertical marketing system is widely prevalent in the retail sector because of the increase in the bargaining power of retailers over the last decade. Retailers have become more market and more corporate-oriented, with a centralized administration and distribution, increased product range, and retail branding. This phenomenon has led to retailers seeking relationships with those suppliers who can contribute to their developing a competitive advantage. Retailers want suppliers to work closely with them in product development, new product concepts and designs, quality control, and delivery schedules. Overheads need to be minimized while out-of-stock situations are absolutely forbidden. Due to these changes in the procurement needs, the traditional market mechanism operating between the supplier and the retailer has given way to a preference for a more stable and mutually beneficial relationship. Such a shift has been aided by views that stable relationships have certain advantages or the view that managing relationships in a vertically integrated system can improve the retailer's competitive performance at the horizontal level. In highly stable administered systems, retailers also provide financial loans to suppliers in their investment programs and give training in new production technologies.

The administered distribution systems are more long-term oriented and stand the test of time due to the prevalence of a strong channel culture and possible competitive advantage for the dominant channel partner. In administered systems, price is not the sole criterion that decides the extent of inter-relationship between



## Block 5: Distribution Management

suppliers, manufacturers, or retailers. The total relationship orientation on a long-term basis is considered. This type of system is widely prevalent in the grocery, apparel, and furnishing sectors. Honda used this system for dealer management in each of the businesses that it chose to enter. It was able to develop, train, and support a network of dealerships in merchandising, floor planning, selling, and service management.

Some of the factors that bring about the need for an administered vertical marketing system are mentioned below:

**Need for consistent product quality:** When the products are difficult to manufacture and require stringent norms to be adhered to, it leads to this type of vertical marketing system.

**Need to have a flexible delivery response:** Shorter lead times and flexible delivery schedules also give an impetus to administered relationships.

**Joint product development:** The administered system is beneficial when there is a need for mutual cooperation between upstream and downstream channel members.

**Specialized delivery systems:** In the food processing and fast food sectors, distribution arrangements have to be consistent and stable due to the nature of the products. McDonald's has set up an administered distribution system in India, to source the different materials used in its products.

**Strong manufacturer brands:** Suppliers have to maintain stable relationships with companies that have strong brands in order to have a steady supply of products. The retailer has to initiate an administered system and absorb the resultant costs.

This type of system provides advantages to both the producers/suppliers and the retailers. Producers, unlike in the traditional system, have the benefit of reaping profits through steady sales and do not have to compete in changing relationships. They can also ensure the maximum product exposure through the retailers because of the nature of the relationship. Wholesalers and retailers are also benefited because they are assured of a steady supply of products of the required quality and of the delivery schedules.

### 22.5.3 Contractual VMS

This is another type of vertical marketing channel in which an organization enters into agreements or contracts with other channel members to perform the different channel functions. Contractual systems consist of independent organizations that integrate their distribution operations through contracts. These organizations try to reap the advantages of a vertically integrated system while operating independently. The success of such inter-organization contractual arrangements depends on the commitment to cooperation from the different channel members.

Contractual systems work through different forms of cooperation. The oldest form of cooperation is where organizations combine similar marketing resources to succeed in increasing market coverage or to present the products to consumers in a better way. Lloyd's Insurance Corporation is one such organization, which comprises partnerships between more than 300 individual and independent syndicate partners. This form of contractual system can be used when the individual firms feel that it is too risky to offer products or services to customers independently.

Another approach towards cooperation through contracts is to trade resources between firms for mutual benefits. Mitsui and Mitsubishi Corporation have been using this form of arrangement since the 17th century. Channel members can trade information about customers and competitors (increases customer understanding) or trade product supplies (decreases inventory costs). Contractual VMS is appropriate when a channel member wants the maximum flexibility to alter its products and strategies or when it wants to reduce risk through minimal investment in other channel activities. The channel member can easily exit from this sort of vertically integrated system if the system fails to provide positive results.

In a contractual VMS, the channel members must have a sound knowledge of the legal requirements since all the contractual agreements drafted are legally enforceable. Generally, companies that have high bargaining power or those operating in highly volatile industries like information technology prefer to adopt a contractual system. All the members in the system must commit themselves, at least partially, to working as a team in order to fulfill certain common goals. This is because organizations enter into such a system with different objectives in mind. Expanding the market demand for their products may be one such objective. This objective holds true for products that have entered the maturity stage of the product life cycle. Industry level promotion where companies not only promote their products but those of other channel members is one form of this approach. It is widely seen in the milk, egg, and beef products industry.

Another objective of entering into contractual systems is for firms to cross-subsidize operations. The firm with the better bargaining power may cross-subsidize or undertake operations on a mutual basis. AT&T, Western Union, and 58 other firms followed cross-subsidization which led to the early development of the satellite communications market in the US. The members mutually benefited by this approach. The objective of all firms entering into such an arrangement is to achieve value-addition. Otherwise, the whole purpose is lost.

Retailer-sponsored cooperative Organizations (RCOs) and Wholesaler-sponsored Volunteer Organizations (WVOs) are two of the best-known forms of contractual vertical marketing systems. RCOs are formed when groups of independent retailers combine together and support a single wholesaler. The wholesaler caters

## Block 5: Distribution Management

to the different needs of the retailer groups and the retailers get benefits in the form of rebates or price discounts from the wholesaler. The channel power is in the hands of the retailers. In a WVO, the wholesaler takes on the onus of establishing a voluntary group of retailers. The wholesaler meets the needs of the retailers far more economically and effectively than the dealers could manage if they were on their own. Except for the difference in sponsorship and channel power, RCOs and WVOs operate in a similar manner.

One of the most widely used and successful forms of a contractual system is franchising. Despite the widespread development and success of vertically integrated systems (corporate, administered or contractual), a new form of channel cooperation and relationship has emerged – Value Adding Partnerships. It involves companies cooperating with each other to manage the movement of products and services along the value-chain.

### **Example: Harley Davidson Joins Hands with Hero MotoCorp for Distribution Pact**

Two-wheeler manufacturer Hero MotoCorp has kicked-off distribution of Harley Davidson, American motorcycles in India and has set up dedicated vertical for the same. Harley Davidson has signed an exclusive distribution agreement with Hero MotoCorp for the Indian market. Hero MotoCorp will be responsible for managing Harley's distribution network and will also sell high capacity bikes developed by Hero under the Harley brand name. Harley Davidson has 33 outlets in the country and 21 dealer partners.

*Sources: Luthra, P. (December 02, 2020). Hero MotoCorp readies sales and distribution strategy for Harley bikes. Retrived from <https://www.cnbc18.com/auto/hero-motocorp-readies-sales-and-distribution-strategy-for-harley-bikes-7618081.htm>. Accessed on 19-5-2022*

## **22.6 Benefits and Costs of Vertical Marketing Systems**

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Channel members must be aware of the costs and benefits of adopting the vertical marketing system through integration. The costs or benefits accrued depend on the channel power, channel level, and the objective of the participating channel member.

### **22.6.1 Benefits**

Whenever a company plans to diversify, vertical integration is one of the most sought- after strategies. The company must consider the benefits of vertical integration from two different angles -- first, in terms of internal benefits, and second, in terms of the effect on the competitive benefits. Internal benefits include improved profitability, better control on the product quality, and increased efficiency in inventory management. Competitive benefits may include the increased ability to respond to changing market needs, better economic control,

improved marketing know-how, decreased costs leading to better competitive advantage, stability in operations, and reduction in risks arising from competitor actions. Another principal benefit that prompts many companies to vertically integrate is differentiation. The vertically integrated system enables the channel members to differentiate their offerings in terms of better product availability, lower costs, or improved service.

### **22.6.2 Costs**

It is necessary to keep in mind that vertical integration is always associated with the additional costs associated with administering the processes. Administrative overheads take up a significant portion of these costs. They involve costs associated with setting up and maintaining the system. A company must estimate the costs that it might incur due to opportunism of the channel members, volatility of the markets, and industry instability along with the administrative overheads, before planning to integrate vertically. There is a possibility of inflexibility in operations for the company - the heavy investment along the entire channel makes it difficult to change processes, policies, and strategies quickly to counter external conditions. Since the company has to manage the different functions in the channel, it might not have the opportunity to specialize or gain expertise in a particular functional area of the distribution channel.

#### **Example: The Swatch Group's Integrated Its Own Retail Network Over The Decades**

The Swatch Group Ltd is a Swiss manufacturer of watches and jewellery. With its 18 brands, the Swatch Group is present in all segments, and is a fully vertically integrated company, from production to distribution. The Group is ideally placed worldwide, with its own retail network including e-commerce and its own customer service. The Group continuously makes long-term investments, not only in research and development of innovative and unique products, but also in the close to 150 production facilities in Switzerland. As a result, the Group occupies an unparalleled position in the Swiss as well as the worldwide watch industry.

Across all segments, the Swatch Group invested a total of CHF 235 million in non-current operating assets in the first half of 2019, practically unchanged from the previous year. In addition to further investments in optimisation and flexibilisation of production capacities, investment was also made in the Group's own retail network and customer service. Swatch Group, brands were supplied with parts by a galaxy of small companies integrated into the group over the decades.

*Source: Reuters. (January 25, 2022). Swatch Group Returns To Profit, Sees Strong Sales Ahead. Retrieved from <https://www.reuters.com/business/retail-consumer/swatch-group-returns-profit-sees-strong-sales-ahead-2022-01-25/>. Accessed on 19-5-2022*

**Check Your Progress - 2**

5. Which of the following statements is **not** true about a Vertical Marketing System (VMS)?
  - a. One channel member exerts considerable influence over the activities of other channel members.
  - b. Channel members try to maximize individual benefits.
  - c. VMS helps reduce channel conflicts.
  - d. VMS helps achieve better channel coordination.
  - e. Improves efficiency of the distribution system.
6. One of the following is not a variable that influences a company's decision to adopt a corporate VMS. Identify it.
  - a. Trade secret
  - b. Value addition
  - c. Product substitutability
  - d. Strong manufacturer brands
  - e. Greater control increases efficiency
7. A well-established retail chain felt the need to have an administered VMS based on various factors. Which factor is not taken into account when taking a decision in favor of administered VMS?
  - a. Joint product development
  - b. Strong manufacturer brands
  - c. Flexible delivery schedules
  - d. Difficulty in evaluating performance of channel members
  - e. Desired control
8. Which of the following is not a form of Contractual Vertical Marketing System?
  - a. Retailer sponsored cooperative organizations
  - b. Wholesaler sponsored volunteer organizations
  - c. Franchising
  - d. Company-owned and operated outlets
  - e. Multiple persons buying licence
9. Identify the cooperative form of channel relationship that involves companies cooperating with each other to manage the flow of goods and services across the value chain.
  - a. Hybrid channel system
  - b. Value-adding partnership

- c. Horizontal marketing system
  - d. Vertical marketing system
  - e. Franchising
10. When one channel member does not have complete control over other channel members, but is able to influence them due to better expertise, brand image and other factors, what is this distribution system known as?
- a. Contractual VMS
  - b. Traditional distribution system
  - c. Administered VMS
  - d. Corporate VMS
  - e. Multi-channel distribution system

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## 22.7 Horizontal Marketing Systems

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A horizontal marketing system is an arrangement within a distribution channel in which two or more firms at the same channel level work towards a common goal. In this system, the two firms are unrelated to each other and come together with the objective of cashing in on a market opportunity. Most companies operate through a strategic alliance or a joint-venture. This type of an arrangement is arrived at because the organizations on their own do not have the resources, experience, or the know-how to exploit the marketing opportunity. Horizontal systems have become popular due to the fact that cooperating firms bring to the arrangement skills and resources the others do not have. Organizations have started making use of horizontal integration to gain advantages that are not possible in the vertical system.

The success of a horizontally integrated system lies in the integration of four different functional areas -- operational integration, intellectual integration, social integration, and emotional integration among channel members. Operational integration is mainly concerned with the standardization of the production and distribution processes between the cooperating firms. Oracle Corporation has succeeded in integrating the diverse divisions with the help of information technology. Intellectual integration involves sharing of information about the requirements among the cooperating firms, leading to the development of tailor-made processes. Microsoft vision statement states how the company uses artificial intelligence by keeping smartphones central to all their activities. All Microsoft's products and services like Cortana, Skype, Bing and Office 365 are one of the largest AI as a Service (AIaaS<sup>12</sup>). Social integration involves the ability of personnel at the same levels in the cooperating firms to discuss, analyze, and

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<sup>12</sup> <https://www.forbes.com/sites/bernardmarr/2019/12/09/the-10-best-examples-of-how-companies-use-artificial-intelligence-in-practice/#65e7c5407978> Accessed on 19.04.2022

## Block 5: Distribution Management

implement programs that are approved by both. Companies like Goldman Sachs have been successful because of the emotional integration through shared purpose, identity, knowledge, and culture across the different levels of the organization.

Horizontal arrangements have been successful in the hospital supply distribution, pharmaceutical, and retailing segments. This type of arrangement is generally formed at the R&D level for new product development or at the wholesaler or retailer level for products like electrical appliances and hardware. Such arrangements are mostly seen in the US market.

### **Example: Vodafone Idea Merger: Horizontal Marketing System**

Vodafone and Idea were two telecommunication giants in India. Both the companies had a nominal market share with some pricing power over the customers. However, with Reliance Jio, all the telecom companies took a significant hit. Jio launched attractive offers for the customers to avoid and gradually shifted from other companies to Jio.

With this merger, the two companies have gained immensely. It was a horizontal merger amongst the two biggest players in the telecom industry. This merger deal was worth \$23 billion. Both the companies had said in their statement that the synergy would be extremely cost-effective.

*Source: Thakur, M. (September 27, 2020). Horizontal Integration. Retrieved from <https://www.wallstreetmojo.com/horizontal-integration-examples/>. Accessed on 19-5-2022*

## **22.8 Hybrid Channel Systems**

With the ever-increasing competition, difficulties in sustaining profitability, and changing consumer tastes, companies have been looking for alternatives to the traditional systems of selling. Earlier, companies depended solely on a direct sales force or the distributors. But alternative modes of selling have now emerged and these include retail selling, direct mail, Internet selling, and telemarketing. When companies simultaneously use a number of such channels, it leads to the development of hybrid marketing systems. One of the earliest organizations to take the help of multiple channel systems was IBM. It added nearly 18 channels that included telemarketing, value-added resellers, and catalog selling for its range of computers.

Hybrid channels have developed due to the need of companies to increase their market coverage or reduce sales and distribution costs. Sales and distribution costs constitute a major portion of a company's total expenses.

### **22.8.1 Designing and Managing Hybrid Channel Systems**

Channel members adopting a hybrid channel system must be aware of the intricacies involved in successfully designing and managing these systems. Let us discuss these two aspects in the following sections.

### **Designing hybrid channel systems**

The fundamental problem that arises in designing a hybrid system is the question of which channels will best accomplish the functions of managing and selling the organization's products to the consumers. This requires managers to identify the different selling tasks that are necessary to achieve the desired objectives. Next, the manager must decide on the tasks that must be assigned to each channel so that they will be successfully accomplished. For example, a company can use telemarketing to identify and qualify prospects for large orders and to identify and close sales for mid-size customers. A direct sales force can be assigned the task of closing sales for large customers who were qualified through telemarketing. Managers involved in designing a hybrid system must have an in-depth understanding of the costs incurred in managing each channel. Knowledge of customer buying behavior is also crucial. Otherwise, there is the possibility of adopting a channel that customers do not prefer, to perform the selling tasks. Designing a hybrid system involves giving equal weightage to aspects that are best for the organization and also best for the end-users (company costs vs. consumer needs).

It is very difficult for managers to decide upon the number of channels required to successfully fulfill the company objectives of increasing market coverage or reducing costs.

### **Managing hybrid channel systems**

Managing hybrid channels is a difficult task since hybrid systems invariably lead to conflicts between channels. Conflicts arise due to the resistance of existing channels to the introduction of new channels. The resistance is due to the fear that the new channels may erode revenue as well as the customer base serviced by existing channel(s). To effectively manage the hybrid channel system, the manager must be able to identify the source of conflict, assess its magnitude, observe the reaction of customers and channel members, and analyze the time needed to solve such conflicts. The intensity of these variables will vary for different industries. Companies manage hybrid channels by servicing the large customers through a direct sales force and the small-size customers through other less expensive methods. Customer characteristics, geography, and products help to avoid overlapping of tasks, which leads to intra company competition. Customer characteristics include size of customers, size of orders, and complexity of decision-making. Decision-making is simple for commodity products and complex for technical/specialty products. Different channels can be used for different countries or continents. A direct sales force may be used for the US market and distributors for the Japanese market. Xerox Corporation makes use of the product characteristics to differentiate its channels. It makes use of the direct sales force for selling high-end machines, and retail channels (mass merchants, electronics and appliance stores) to sell its low-end office-automation products.



## **Block 5: Distribution Management**

Though there are many ways to manage multi-channel systems, they can be clubbed into two approaches -- the monolithic system and the pluralistic system. In the monolithic system, the wholesaler or distributor sells the products to customers through a single distribution channel. A monolithic system consists of both direct channels and the indirect channels where each channel is assigned to perform different channel functions for different segments. For example, Becton Dickinson's VACUTAINER Systems division (BDVS), which sells blood collection tubes and needles to different segments for different applications, uses the monolithic system. In a pluralistic system, the supplier sells different products through different channels for different segments. Usually to avoid channel conflicts, channel functions are separated on the basis of type of products. For example, Ingersoll-Rand's Stationary Air Compressor Division (SACD) produces a range of compressors in different sizes using different technologies. SACD makes use of the direct sales channel, independent distributors, and manufacturer's representatives to sell compressors of different configurations and sizes to different customer segments.

The hybrid marketing system can be managed effectively by ensuring that the channel structure and policies support the overall objectives of the hybrid system. Second, it should not lead to any hurdles in the systematic flow of revenues through the different channels. For example, some companies have compensation policies that pay employees in older channels to permit employees in newly introduced channels to sell the products or services.

Modern technical systems are being used as tools to ensure the effective functioning of hybrid marketing systems. The Marketing and Sales Productivity (MSP) system is one such tool that helps to develop and customize channels according to the customer needs.

### **Advantages and disadvantages of hybrid channel systems**

Some of the advantages of using hybrid channels are better product promotion, reduction in transaction costs, increase in market and customer coverage, and the benefit of developing a customized approach to selling and distribution of products. Generally, companies keep adding new channels without any proper distribution strategy in an effort to cut costs and increase market coverage. This finally leads to a host of problems. The channels may not be well integrated, and so it may not result in the expected synergic effect. Sometimes, the channel structures may not match the external environmental conditions. It is crucial to remember that whenever an organization ventures from a direct channel to an indirect channel or vice versa, it always inadvertently leads to the creation of a hybrid system. Some of the problems that arise include overlapping of the functions of different channels, problems associated with monitoring and controlling the different channels, and conflicts between the different channels that compete for the same customer base.

Hybrid channels are being effectively used in the services industry, especially the financial services industry. Insurance and banking companies make use of hybrid marketing systems to customize and sell their portfolio of products. The banking industry makes use of a variety of channels such as telemarketing, internet, digital TV, kiosks, direct mail, ATM etc., to sell its products.

**Example: Mercedes-Benz Hybridizing Dealers with 'Retail of the Future' (ROTF) Sales Model**

Mercedes-Benz has the strongest network presence among luxury car makers with 94 outlets across 47 cities in India. In 2021, Mercedes-Benz India has gone live with its new 'Retail of the Future' (ROTF) direct-to-consumer sales model. Under this business model, Mercedes-Benz India owns the entire centralised vehicle stock and will directly invoice a purchase to the buyer, in addition to handling order processing and fulfilment. While dealers will continue to be the point of contact for customers as they will facilitate the purchase, the benefit for them, according to Mercedes, will be that they own no inventory under this business model, and hence benefit from a lower cost structure and carry little market-facing risk. They will be directly compensated by Mercedes-Benz India for vehicle sales, and will continue to develop local market requirements, retail marketing activities, lead generation and manage customer relationships. There will be no change to existing dealer infrastructure.

Sources: Doval, P. (October 22, 2021). Mercedes goes for direct sales, to slow down dealer expansion. Retrieved from <http://timesofindia.indiatimes.com/articleshow/87212431.cms>. Accessed on 19-05-2022

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**Check Your Progress - 3**

11. Four different functional areas have to be integrated to contribute to a successful horizontal marketing system. These areas are listed below, with their corresponding characteristics. Which area has been associated with the wrong characteristic?
- Operational integration: standardization of the production and distribution processes
  - Social integration: ability of personnel at the same levels to analyze and implement commonly approved programs
  - Intellectual integration: integration of culture
  - Emotional integration: shared purpose and identity
  - Intellectual integration involving sharing of information about the requirements among the cooperating firms, leading to the development of tailor-made processes.

## Block 5: Distribution Management

12. Which of the following is not an important aspect for designing and managing a hybrid channel system?
    - a. Identifying sources of conflict
    - b. In-depth understanding of the costs incurred in managing each channel
    - c. Giving weightage to consumer needs instead of company costs
    - d. Observing the reaction of customers
    - e. Studying the reaction of channel members
  13. Which of the following statements about hybrid channel systems is true?
    - a. It results in a customized approach to selling and distribution.
    - b. It eliminates the problems associated with monitoring.
    - c. It helps overcome the problems faced in controlling the different channels.
    - d. In a monolithic hybrid system, both direct and indirect channels serve the same customer segment.
    - e. In a pluralistic hybrid system, channel functions are not usually separated on the basis of type of products.
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## 22.9 Summary

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- Companies the world over produce millions of dollars' worth of goods for consumers. These goods reach the end-consumer through a maze of distribution systems.
- Over the last few decades, companies have realized that effective distribution systems can be a source of competitive advantage.
- Companies can develop their own distribution channels or delegate the functions to different channel members through channel integration.
- Channel integration involves streamlining the different channel activities and information flow in a manner that leads to mutual benefits to all the partners concerned.
- The advantages of channel integration are manifold. It reduces transaction costs, improves inventory management, reduces business opportunism, acts as a barrier to new entrants, bridges the time, space, and variety gaps between production and consumption and reduces the business opportunities lost due to stockout and delayed delivery.
- To gain the advantages of integration, companies have adopted vertical marketing systems. VMSs have emerged as the dominant mode of distribution over the traditional systems.

- In a VMS, one of the channel members may own the others, influence the others due to better bargaining power, or develop a contractual arrangement with the different channel members. The three types of VMS's are administered, contractual, and corporate.
- The benefits of VMSs include: improved profitability, better control on the product quality, increased efficiency in inventory management, increased ability to respond to changing market needs, better economic control, improved marketing know-how, decrease in costs leading to better competitive advantage, stability in operations, and reduction in risks arising from competitor actions. Another principal benefit that prompts many companies to vertically integrate is differentiation.
- A new concept that has emerged is value-added partnerships. In this form of integration, small firms come together and form a system. Here, each participating channel member performs a single channel function at a particular channel level.
- A horizontal marketing system is another approach that has gained widespread support. It is an arrangement within a distribution channel in which two or more firms at the same channel level work towards a common goal. In this system, the participating organizations usually operate in different segments and are unrelated.
- The advantage of this type of arrangement is that the firms pool together resources and skills the others do not have, with the objective of exploiting the available market opportunity. Most companies operate through a strategic alliance or a joint venture.
- Hybrid channel systems develop when organizations begin to use a number of channels to sell their products. These channels include a direct sales force, direct mail, telemarketing, catalog selling, and retail selling.
- The advantages of using hybrid channels include: better product promotion, reduction in transaction costs, increase in market and customer coverage, and the benefit of developing a customized approach to selling and distribution of products.
- Designing hybrid systems involves identifying the tasks required to fulfill the desired objectives, and then segregating the selling tasks and assigning them to the respective channels.
- Designing hybrid systems involves determining the channel characteristics, identifying the channel mix properties and selecting the number of channels that will bring about the desired outcomes.

## Block 5: Distribution Management

- To effectively manage the hybrid channel system, the manager must be able to identify the source of any conflict, assess its magnitude, observe the reaction of customers and channel members, and analyze the time needed to solve the conflict.
- Modern information systems have enabled organizations to effectively manage the hybrid channels and avoid overlap of activities and draining of resources.

### 22.10 Glossary

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**Channel power:** The ability of the channel captain to influence or control the behavior of the rest of the channel.

**Direct channels:** Marketing channels that lack intermediaries, in which producers and customers interact directly.

**Franchise:** A business entity licensed to use the trademarks, operations, and other attributes of a business.

**Horizontal integration:** The integration of intermediaries in one level of the marketing process, such as retail outlets.

**Independent retailers:** Retailers that are not part of large retail organizations, but are owned by one person, two or more partners, or a family.

**Indirect channels:** Marketing channels that rely on intermediaries to move products from producers to customers.

**Lead time:** Amount of time required for an item to be available for use from the time it is ordered. Lead time should include purchase order processing time, vendor processing time, in transit time, receiving, inspection, and any pre-pack times.

**Retail selling:** Retail selling takes place when a potential customer approaches a retail store. Here, the role of the salesperson is to satisfy the need of the customer with the available merchandise in the retail store.

**Specialty products:** Those products, while purchasing, which, the consumer is least concerned about the time, effort or expense involved.

**Vertical Marketing System (VMS):** A distribution system in which the producers, wholesalers, and retailers act in a unified manner to facilitate the smooth flow of goods and services from producer to end-user.

### 22.11 Self-Assessment Exercises

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1. The successful agreements and alliances that companies have entered into with different channel members in recent times have made managers realize the potential of channel integration to reduce costs and improve productivity. In this context, define channel integration and discuss the advantages of channel integration.

2. What is a vertical marketing system? What are the different vertical marketing systems? Explain them in detail.
3. 'Before adopting the vertical marketing system, channel members must be aware of the costs and benefits offered by the system.' Explain this statement in detail.
4. Organizations have started making use of horizontal integration to gain advantages that are not possible in the vertical system. What is a horizontal marketing system?
5. Companies have been looking for alternatives to the traditional systems of selling. This leads to the emergence of hybrid channel systems. Discuss these systems in detail.

### **22.12 Suggested Readings/Reference Materials**

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1. Venugopal Pingali (2020). "Sales and Distribution Management: An Integrative Approach", SAGE Publications Pvt. Ltd.
2. Nag A (2017). "Sales and Distribution Management," McGraw Hill Education.
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6. Bholanath Dutta (2020). "Fundamentals of Sales & Distribution Management: Text & Cases", Dreamtech Press.
7. Gupta S L (2018). "Sales and Distribution Management – Text and Cases An Indian Perspective," Laxmi Publications Pvt. Ltd.

### **22.13 Answers to Check Your Progress Questions**

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#### **1. (c) Ensuring customer satisfaction**

The principal functions that channel members commonly perform are transfer of ownership of goods, negotiation of titles, and physical movement of products.

#### **2. (b) Channel members**

Channel members play a major role in distributing the goods and services of the manufacturers to the end-users. Wholesalers, retailers, transporters, logistic providers, and distributor agents are channel members.

## **Block 5: Distribution Management**

### **3. (a) Space gap**

Manufacturing location is based on the feasibility to manufacturers in terms of raw materials availability, transport facility, etc. Manufacturing location may not necessarily be the same as that of the customers. Distribution channels help bridge this 'space gap' between manufacturers and consumers.

### **4. (d) It reduces uncertainty, costs and other risks associated with legal agreements.**

All the options are false regarding the importance of channel integration, except statement (d). Channel integration helps in reducing uncertainty, costs, and other risk associated with legal agreements.

### **5. (b) Channel members try to maximize individual benefits.**

All the statements are true regarding a Vertical Marketing System (VMS), except statement (b). Unlike traditional channel systems where channel members aim to maximize individual benefits, in VMSs, channel members work for a specified benefit common to the whole channel system.

### **6. (d) Strong manufacturer brands**

Certain key variables influence the decision on whether a company should develop a corporate vertical marketing system or not. Some of these variables are the costs involved in operating the system, price competition, manufacturing capacities, value addition, trade secrets, product substitutability, environmental uncertainty, and transaction size.

### **7. (d) Difficulty in evaluating performance of channel members**

In the administered type of vertical marketing system, no channel member has complete control over other channel members. Some of the factors that bring about the need for an administered vertical marketing system are -- need for consistent product quality, need to have a flexible delivery response, joint product development, specialized delivery systems, and strong manufacturer brands.

### **8. (d) Company-owned and operated outlets**

Contractual Vertical Marketing System (VMS) is a type of vertical marketing channel in which an organization enters into agreements or contracts with other channel members to perform the different channel functions. Retailer-sponsored Cooperative Organizations (RCOs), Wholesaler-sponsored Volunteer Organizations (WVOs), and franchising are some of the forms of a contractual VMS.

**9. (b) Value-adding partnership**

Value-adding partnership is a new form of channel cooperation and relationship that involves companies cooperating with each other to manage the movement of products and services along the value chain.

**10. (c) Administered VMS**

In the administered type of vertical marketing system, no channel member has complete control over other channel members, but is able to influence them due to better expertise, brand image, market share, and channel power. In an administered VMS, the level of control is greater than in the traditional distribution system but less than that of a corporate system.

**11. (c) Intellectual integration: integration of culture**

The success of a horizontally integrated system lies in the integration of four different functional areas – operational integration, intellectual integration, social integration, and emotional integration among channel members. Operational integration is mainly concerned with the standardization of the production and distribution processes between the cooperating firms. Intellectual integration involves sharing of information about the requirements among the cooperating firms, leading to the development of tailor-made processes. Social integration involves the ability of personnel at the same levels in the cooperating firms to discuss, analyze, and implement programs that are approved by both. Emotional integration is carried out through shared purpose, identity, knowledge, and culture across the different levels of the organization.

**12. (c) Giving weightage to consumer needs instead of company costs.**

All the options are true regarding the important aspects for designing and managing a hybrid system, except option (c). Designing a hybrid system involves giving equal weightage to aspects that are best for the organization and also best for the end-users (company costs vs. consumer needs).

**13. (a) It results in a customized approach to selling and distribution.**

All the options are false regarding hybrid channel systems, except statement (a). Hybrid channel systems consider the problems associated with monitoring and controlling the different channels. A monolithic system consists of both direct channels and the indirect channels where each channel is assigned to perform different channel functions for different segments. In a pluralistic system, to avoid channel conflicts, channel functions are separated on the basis of the type of products.



## Unit 23

# Channel Management

### Structure

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- 23.1 Introduction
- 23.2 Objectives
- 23.3 Recruiting Channel Members
- 23.4 Criteria for Selecting Channel Partners
- 23.5 Motivating Channel Members
- 23.6 Evaluating Channel Members
- 23.7 Modifying Channel Arrangements
- 23.8 Managing Channel Relationships
- 23.9 Summary
- 23.10 Glossary
- 23.11 Self-Assessment Exercises
- 23.12 Suggested Readings/Reference Materials
- 23.13 Answers to Check Your Progress Questions

*“It is our responsibility to be true channel partners and leverage our relationships with customers to offer real solutions to business challenges.”*

- Lief Morin, President, Key Information Systems, Inc.

### 23.1 Introduction

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Channel management helps you make the most of your sales and marketing channels. The main goal of any company sales team is to sell its products to as many people as possible by attending to customer's needs.

In the previous unit, we discussed the importance of channel integration, several types and benefits of vertical marketing systems, horizontal marketing systems and hybrid channel systems. The present unit is about channel management.

In the present-day competitive market environment, customers seek convenience and service while purchasing goods. At the same time, distributors are becoming more organized with regard to operations and providing specialized services. In this scenario of growing customer expectations, it is extremely important for companies to manage their channels effectively. Efficient channel management helps companies decrease costs, reach potential customers and make profits. Factors such as convenience and service are not under the direct control of manufacturers as intermediaries play a key role in providing convenience and

service to customers. Additionally, as distributors are becoming increasingly specialized, it is all important to have effective organization and management.

There are some key aspects managers should consider for managing channels better. First and foremost, the company has to select and recruit the right channel members. Once this is done, it has to focus on motivating channel members and increasing the firm's profitability. Later, the company has to constantly evaluate the performance of channel members to ensure that they remain competitive in the market. Based on market changes, the managers should accordingly modify their channel arrangements.

In this unit, we will discuss the selection and recruitment process of channel members, the criteria for selecting channel members and how to motivate and evaluate them. The unit concludes with a discussion on managing channel relationships.

### **23.2 Objectives**

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After going through this unit, you should be able to:

- Discuss recruitment process of channel members.
- Illustrate the criteria for selection of channel partners.
- Explain motivation and evaluation process of channel members.
- Discuss how channel relationships are managed

### **23.3 Recruiting Channel Members**

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To be successful in the market, companies have to focus on strengthening core competencies and outsource other activities. Distribution channel function is a key area that can be outsourced, but channel members have to be selected carefully. This is very important for any company as they represent the company in the market. Replacing existing channel members is a complex phenomenon, especially in international markets. Therefore, firms have to tread cautiously while recruiting so that an ideal channel member can be selected. An ideal channel member will be one who will serve the right customer at the right time with the right attitude. For selecting channel members, who suit the company's requirements, a careful recruiting and screening procedure is essential.

Once companies recognize the significance of recruitment and selection of proper channel members, they should start recruitment by considering some guidelines that should be followed for effective recruitment. The first is to assess the exact role to be played by channel members, in other words, the nature of the job they have to perform. Then, the qualifications of the channel member have to be analysed in terms of the firm's requirements. Subsequently, the authority to be delegated to channel members needs to be specified. Finally, changes that may occur in the future with regard to the role played by channel members has to be specified.

## **Block 5: Distribution Management**

### **23.3.1 Recruiting as a Continuous Process**

Recruiting channel members should be a continuous process for two main reasons. The first, obvious one is that channel members may leave the organization. The other reason is that the organization might feel the need to change existing channel members. Therefore, recruitment of channel members has to be a continuous process. Factors influencing these reasons can be numerous. For instance, a change in the company's product policy may need new types of channel members. Alterations in customers' tastes and preferences will also influence the company to change existing channel members if they are unable to cater to the changed conditions.

### **23.3.2 Recruiting Manufacturers**

It is not that only manufacturer's recruit channel members, it can be the other way round too. In recent times, there is a growing number of retailers who choose the right kind of manufacturer for maximizing their sales.

### **23.3.3 Screening**

Screening is done for the process of elimination. In the channel member recruitment process, screening involves elimination of applicants who do not match set criteria. There are certain guidelines for screening channel members. The foremost is to screen based on the market segments the channel members have to serve. The second one is to assess the channel member's capability to serve the market and compatibility of service with the product's stage in the product life cycle. As distribution requirements change during the different stages of the product life cycle, it is essential to select channel members who best suit these requirements. For instance, if a new type of air purifying equipment is launched, it needs highly specialized distributors during the initial stage of the product life cycle. They should be able to explain technical intricacies to customers clearly. Once the product reaches the maturity stage, specialized distributors are not needed for demonstrating technical details to customers, as they are well aware of the product and its usage. Usually, manufacturers tend to select distributors who are successful in the market. But, successful distributors carry a large number of products and may not have space for more products. However, this does not mean manufacturers should settle for sub-standard or ineffective channel members. Instead, they should select appropriate channel members who can allocate sufficient time for effective distribution and improve sales. This is, especially, important in the present environment where customers are keen on convenience and service while making purchase decisions. Finally, the last criterion for screening channel members is support. If channel members need financial and strategic support during the initial stages of the relationship, the company can extend such support, if it feels that the accrued benefits will offset the costs involved. Otherwise, the company should screen out such applicants.

**Example: Heather Tenuto Screens its Channel Members**

Heather Tenuto, Chief Revenue Officer for enterprise channel management platform provider Zift Solutions, says that the ideal partner is one that knows their ideal customer. They need to “have a mature understanding of their own offer and ideal customer profile,” she says. Without that, it’s going to be a struggle to find out how your solution fits.

The effort to profile and screen for an ideal partner pays off—especially since it could take six to 12 months (depending on the length of your sales cycle) before you have a good bead on a new partner’s performance. “Don’t be afraid to do the labor-intensive work,” says Stuart Skjerven, channel programs and marketing manager for Mitel, a business communications provider. “If you’ve identified a best-fit partner, they’re worth it.”

*Source: Gonzalez, L. (February 19, 2021). How To Recruit Channel Partners: 10 Strategies From Channel Leaders To Recruit Partners That Produce. Retrieved from <https://ziftsolutions.com/blog/how-to-recruit-channel-partners-10-strategies/>. Accessed on 20-5-2022*

### **23.4 Criteria for Selecting Channel Partners**

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Once screening is over, the firm will be left with a small list of potential channel members for selection. From this list, the company has to spot the most suitable channel members who will best fit its requirements. Some criteria for selecting channel partners are sales, product, experience, administrative and risk factors. Let us elaborate these.

#### **23.4.1 Sales Factors**

The primary factor to be considered while selecting channel members is the member’s ability to sell the company’s products in the market. Apart from sales factors, the channel member’s knowledge and expertise of the market are also important preconditions for selection.

#### **23.4.2 Product Factors**

Product factors involve the channel member’s expertise and knowledge of the products to be handled. The channel partner’s ability to handle products effectively and deliver the required after- sales services to customers are primary factors that determine selection of a channel member.

#### **23.4.3 Experience Factors**

It is important to have a look at the distributor’s experience. Assessing the type of customers handled in the past and their satisfaction levels will provide a good insight and help selection of channel members.

## **Block 5: Distribution Management**

### **23.4.4 Administrative Factors**

Administrative factors such as the amount of work the channel member is handling and the distributor's pricing patterns are some factors that have to be considered at this stage for evaluating channel members.

### **23.4.5 Risk Factors**

Risk factors include evaluation of the potential channel member's past performance, the channel member's commitment to the organization's progress, costs incurred in selecting a member and subsequent dealings with all stakeholders of the company.

### **23.4.6 Financial Factors**

The main financial factors that affect channel management are -

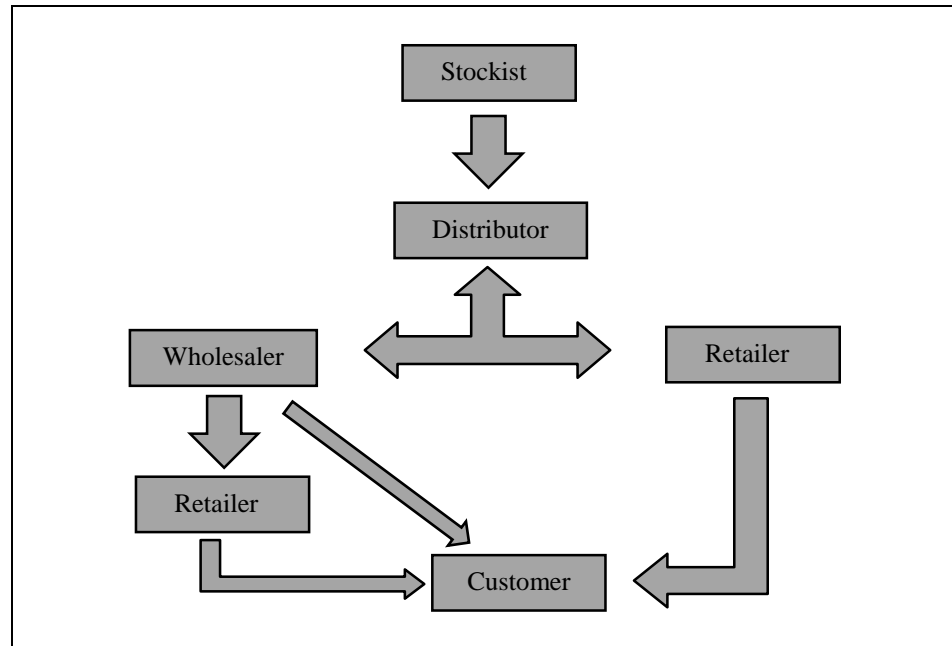
- i. **Investment** – Channel management requires a lot of investment not only from the company but the channel partners as well.
- ii. **Monthly purchase** – All the points of channel management make monthly purchase of the product. The rotation of cash is very important in channel management. Once the money comes in from customers to retailers to whole sellers to distributors to stockists to C&F to company, the sales cycle is complete. One should understand that entire channel management is dependent upon rotation of money.
- iii. **Operational cost** – Channel management does not only mean to deliver the product to the customers. There is operational cost involved in between: transportation cost, labor cost for loading and unloading of goods, handling cost, maintenance of shelves at retailers and wholesalers point.
- iv. **Commercial inventory** – Usually the company gives 5 days to the dealer to make the payment and if the payment is done on time the company gives a 2.5% cash discount.
- v. **Salary** – Apart from the salary which the company pays to its vast sales force, at the dealers point salary to sales man, delivery boy, labors, and drivers is a major cost.
- vi. **Promotional cost** – Though the company spends on the major promotional costs of printed materials, at the local level, dealers also incur expenses in promotional cost like putting up hoardings, signage, and boards in the city.
- vii. **Miscellaneous** – Apart from all the expenses mentioned above, day to day expenses which are to be covered by the dealers.

### **23.4.7 Standing in Local Market**

Channel management for products and management of channel in local market is very important to ensure that the product is supplied at the right time and there is

no scarcity in the local market. A typical Channel Chain in B class cities will look as under:

**Figure 23.1: Channel Management in Local Market**



Source: ICFAI Research Center

In a traditional set up, there is a stockist in the city. These stockists supply the products to distributors. In small towns, there is one distributor, but in larger towns there are 2-3 distributors. These distributors supply to both wholesalers and retailers. Retailers sell the products to customers. Wholesalers sell the products to both customers and retailers.

To manage channels, there are area managers, managers, sales executives, team leaders appointed from the company side and sales men, delivery boys, van drivers from distributor's side.

#### 23.4.8 Handling Competitive Product Range

Handling a competitive product range in channel marketing is a very tricky job.

Now, to calculate the numbers which company needs to manage its operations are -

- i. One C&F Agent per state.
- ii. 1 Super Stockist per city.
- iii. For smaller towns, there can be one distributor and for bigger towns the company may need 2-3 distributors depending upon the size of the city.
- iv. There is one re-distributor per region.
- v. There can be "n" number of wholesalers and retailers depending upon the area and the population of the town.

## **Block 5: Distribution Management**

To handle this scale of channel management, the company needs a number of employees both from the company's end and the distributor's end.

### **23.4.9 Additions of New Customers**

There are basically two types of customers in channel management. They are:

- i. Primary customer – channel partners
- ii. Secondary – direct customer, new product

To increase the primary customers, the company needs to increase the number of channel partners. The company needs to expand the width of its distribution network, which means opening of new sales point as much as they can.

To increase the depth of distribution network and attract new customers, company needs to place a larger range of products at sellers' point. The company needs to expand its product range and keep introducing new products at regular intervals. A classic example of P&G is given as under;

- i. Every 6 months the company introduces various variants.
- ii. They repackage and reposition their branded products.
- iii. Conduct regular customer satisfaction survey.
- iv. Keep a note of marketing environment and changing economic conditions of both market and customers.
- v. Motivate the channel partners to increase the business.

### **23.4.10 Credit Cycle**

To become a C&F agent or super stockist or stockist or distributor of any company, individuals have to deposit a security amount to the company. On the basis of this deposit the company gives products on credit. The usual credit cycle that prevails in the market is –

- i. Company to C&F agent – 21 days to 45 days, no cash discount if the product is taken on credit.
- ii. C&F agent to Super Stockist – 15 days to 30 days, no cash discount if the product is taken on credit.
- iii. Super Stockist to Stockist - 12 days to 22 days, no cash discount if the product is taken on credit.
- iv. Stockist to Distributors - 21 days maximum, no cash discount if the product is taken on credit.
- v. Distributors to wholesalers – 7 days maximum, no cash discount if the product is taken on credit.
- vi. Wholesalers to retailers - 7 days maximum, no cash discount if the product is taken on credit.

### 23.4.11 Payment History

Payment history of C&F agents, super stockist, stockist, distributors, wholesalers plays an important role in channel management. Usually the companies take PDC for the number of days. If the check is honored, the business runs smoothly. In the case of dis-honor of cheques, the company is liable to legal actions.

On the other hand, when the super stockist, stockist, distributors, wholesalers give products on credit down the line they send a collector boy on the said dates. The payment received is taken into account; in some cases, the up line can give 1 or 2 days extra to the down line. But if the payments are not received even after repeated reminders, the channel partners are black listed. The sales force also defames the vendor in the market.

### 23.4.12 Maintenance of Proper Inventory

Any company, whose marketing of products is dependent upon channel management, should maintain a proper inventory at all distribution points. The balance of inventory should be as per the demand of the product. In FMCG products, there are many OTG products such as toothpaste, soaps, oil etc. which are sold on monthly basis. On the basis of the past sales the company should plan a forecast layout and fill the inventory accordingly. In case of negative inventory, the customers will look for substitute and can eventually switch to the substitute.

#### Example: Selecting Channel Members at Ooma

Dave Beagle, head of channels for Ooma, a provider of cloud-based voice and collaboration solutions, approaches partners with a four-pronged “FIST” strategy for partner management:

- Financial benefit to the partner - What is the value of your products and services to the partner? How do they make money with them?
- Integrity of our organization - How do we position ourselves as trustworthy? It's more than reviews or being a public company.
- Sincerity of our personnel - Having people who truly care and like working with their partners will always translate to a healthier engagement and should never be under-appreciated as a recruitment aspect.
- Transparency in our communication - We must over communicate and never assume on our partner's behalf.

“Add all this up and be candid about everything, and the partners you sign will be long term, more likely,” Beagle says.

*Source: Gonzalez, L. (February 19, 2021). How To Recruit Channel Partners: 10 Strategies From Channel Leaders To Recruit Partners That Produce. Retrieved from <https://ziftsolutions.com/blog/how-to-recruit-channel-partners-10-strategies/>. Accessed on 20-5-2022*



## Block 5: Distribution Management

### Activity 23.1

With most restaurants expecting slow recovery after end of Covid-lockdown, the new focus of Quick Service Restaurants is on managing delivery and use of technology to improve customer service. What criteria should Quick Service Restaurants like KFC or Burger King consider while selecting franchise partners?

**Answer:**

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### **Check Your Progress - 1**

1. There are some key activities that managers should consider to better manage channel members. Select the right sequence of these from the choices given below.
    - a. Select – motivate – evaluate – modify
    - b. Evaluate – modify – motivate – select
    - c. Select – evaluate – modify – motivate
    - d. Motivate – modify – evaluate – select
    - e. Motivate – select – modify - evaluate
  2. Which of these statements is **not** correct with regard to the reasons behind the continuous process of recruitment of channel members?
    - a. Channel members leaving the organization
    - b. Change in the product policy
    - c. Complexity of replacing existing channel members
    - d. Change in tastes and preferences of customers
    - e. Changes in buying habits of customers
  3. The short-listed potential channel members are selected on the basis of certain criteria. Which of these is not a criterion that is considered for selection purpose?
    - a. Administrative factors
    - b. Sales factors
    - c. Experience factors
    - d. Product factors
    - e. Experience in handling variety of products
-

## 23.5 Motivating Channel Members

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As channel members act as intermediaries between manufacturers and end consumers, companies have to ensure that channel members are motivated enough to put in their best. To develop motivational measures, it is important for firms to first understand the different needs of channel members and the problems they face from time to time. For instance, Intel decided to let channel members choose the advertising media for effectively reaching out to its customers. Distributor advisory councils help firms determine the needs and problems of channel members.

### 23.5.1 Distributor Advisory Councils

As said, distributor advisory councils are necessary to determine the needs and problems of channel members. They help in information exchange between channel members and manufacturers so that both parties can understand the duties and responsibilities of one another. The role of the distributor advisory council is to encourage channel members to contribute significantly to the planning process and improve channel performance. Thus, these councils give channel members a sense of belonging, which motivates them to put in their best performance. Personal contact with channel members also provides sufficient information to manufacturers about their needs and problems.

Some other strategies that can be used for motivating channel members are relationship marketing, where the manufacturer will try to forge stronger relationships with distributors, to enhance their performance. The company should offer appropriate benefits and incentives to distributors to help them improve the supply chain, reduce the capital employed, lower the operating costs, lower the risks involved, enhance customer finance schemes and engage in sales promotions.

### 23.5.2 Schemes, Discounts, Gifts, Prize Trips and Sales Conferences

**Schemes:** The main types of schemes given by the company are:

- **Quantity purchased scheme** – The general scheme which goes is 11+1. The company expects the retailer to buy a dozen of its products and when they do so, they pay for 11 pieces and get 1 free. This is the most common and oldest practice in channel management.
- **Price reduction scheme** – When the season is low, the company gives some price discount on selected products.
- **Seasonal Scheme** – During off season, there are schemes on the products which are less likely to be sold.
- **Festival Scheme** – Special schemes and discounts are there during the festivals to boost sales.

## Block 5: Distribution Management

- **Target based rewarding scheme** – There are some schemes which are ongoing and are based on target. For example, on selling 100 pieces there is a reward. Then when 200 pieces are sold, there is another reward. Another reward may be on 400 pieces, 800 pieces and 1000 pieces.
- **POP displays for retailers** – At retailers' point, company gives them sign boards, glow sign shelf display etc. to boost the morale of the retailer to sell the product.

**Discounts:** There are various kinds of discounts that the company gives at every selling point in channel management like cash discount, seasonal discount, sponsorship of promotional activity etc.

**Gifts:** Time to time the company gives gifts to their vendors which can be in terms of simple products like pens, torches, watches, crockery, ceiling fans, suit lengths to higher end products like laptops, cell phones, tablets to gold and silver coins as well.

**Prize Trips:** At the end of every financial year for their performing dealers, the company organizes free trips to national and international locations.

**Sales Conferences:** Before the end of the financial year, companies organize sales conferences for their specific dealers where they brief about the product, introduce new products or specifications.

### **Example: Ingram Motivating Channel Members Through Skill Development Plan**

Ingram Micro, an American distributor of information technology products and services has partnered with technology skills platform Pluralsight to offer partners skill development plans for cloud initiatives. The global distributor will now offer Pluralsight certified services to its network of independent software vendors, value-added resellers and managed service providers (MSPs) via its Cloud Marketplace. Ingram Micro claimed that partners will now gain access to certification courses, hands-on labs and sandboxes to build skills and competencies. Partners will be able to build competencies across their organisations more effectively while accelerating their cloud skill development journeys at scale

*Source: Dickinson, E. (May 18, 2022). Ingram Micro Cloud Teams up with Pluralsight For Partner Training. Retrieved from <https://www.channelasia.tech/article/698229/ingram-micro-cloud-teams-up-pluralsight-partner-training/>. Accessed on 20-05-2022*

### **Activity 23.2**

Emami Group has a number of channel partners to market its products across India. How can the company motivate its channel members so that they continuously perform well? How can it evaluate the channel members for effective performance?

<b>Answer:</b>

### 23.6 Evaluating Channel Members

Once channel members are selected, they have to be constantly evaluated and based on their performance, the company can retain them or forge alliances with new channel members. Channel members can be evaluated using parameters like sales quota attainment, average inventory levels, proper management of inventory, and their cooperation in the promotional and training programmes. It is essential for the company to counsel channel members whose performance is deteriorating, provide them additional training and motivate them before deciding to discard them. Terminating the relationship should be a last resort if all these measures fail. Simultaneously, the firm should also identify channel members who are putting in profitable performance and reward them suitably. Usually, manufacturers evaluate performance to assess capabilities in carrying products from time to time. For instance, IBM evaluated the performance of several of its distributors and retained only a few to carry its new PS/2 range of personal computers.

#### Example: Evaluating 3PL Channel Members in 2021

In the 2021 Inbound logistics perspectives provides insight that 3PL (Third-party logistics) Market Research Report published in July, 47 percent of shippers and 73 percent of 3PLs report that finding, training and retaining qualified labor is one of their top challenges. Third party logistics providers face major supply chain challenges. Managing inventory for multiple clients, each with its own labels, invoices, reports, operational processes, billing, and other unique elements, 3PL operations tend to be more complex.

Source: (August 9, 2021). 2021 Supply Chain Labor Shortages and the Role of Technology. Retrieved from <https://www.datexcorp.com/2021-supply-chain-labor-shortages-and-the-role-of-technology/>. Accessed on 20-5-2022

### Check Your Progress - 2

4. As channel members are the intermediaries between the manufacturer and the end-user, companies should ensure that channel members are suitably motivated. Identify the wrong motivational strategy from the options given below.
  - a. Set up distributor advisory councils
  - b. Engage in sales promotions

## **Block 5: Distribution Management**

- c. Increase the capital employed
  - d. Enhance customer finance schemes
  - e. Encourage feedback from channel members at all levels.
5. Which of the following is not a major parameter based on which channel members can be evaluated?
- a. Sales quota attainment
  - b. Average inventory levels
  - c. Proper management of inventory
  - d. The political connections of the channel partner
  - e. Cooperation in promotional and training programs
6. Which of the following statements regarding distributor advisory councils is not true?
- a. They help in information exchange between channel members and manufacturers so that both parties can understand the duties and responsibilities of one another.
  - b. They encourage channel members to contribute significantly to the planning process.
  - c. They help members to improve channel performance.
  - d. They directly negotiate with companies to get a better deal for members.
  - e. They give the channel members a sense of belonging, which motivates them to put in their best performance.

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### **23.7 Modifying Channel Arrangements**

Companies tend to relax once channels members are in place. But this is not sufficient and channel members have to be constantly evaluated. Further, the organization should keep an open mind on modifying existing channel arrangements periodically. This is necessary because of constant changes in customer preferences, emerging competition, expanding markets and other environmental factors influencing market performance. Channel modifications can be made through product life cycle changes, customer-driven refinement of existing channels and growth of multi-channel marketing systems.

#### **23.7.1 PLC Changes**

It is important for companies to understand that distribution requirements for a product keep changing according to its stages in the Product Life Cycle (PLC). No single distribution model will work for any product during its entire life cycle. If the product is in the initial stage, and is a technical product, it needs a highly specialized distribution channel, as customers have to be told about the technical aspects of the product. During the maturity stage of the PLC, the distribution channel need not be so specialized as the product becomes standard and

customers get used to it. A product needs different kind of distribution channels at different stages of the PLC. For instance, if we consider toothpaste in the introductory stage, personal selling might be appropriate. When the product is reasonably successful and is in the growth stage of the PLC, it can be sold through conventional retail outlets. Once the product reaches maturity and is moving towards decline, the company may think of adding new distribution channels to attract new customers.

### **23.7.2 Customer-Driven Refinement of Existing Channels**

Channel modification is an essential element for a firm's success. If channels are not modified from time to time, they stagnate and will not meet customer expectations. As a result, customers will lookout for better channels, which deliver the required value. Eventually, companies, which cannot modify existing stagnant channels, will fail in the market. It is therefore vital that companies identify changing customer requirements and meet their demands. Usually it is difficult to modify existing channels because of stiff resistance from existing channel members.

### **23.7.3 Growth of Multi-Channel Marketing Systems**

Multi-channel marketing system is the process by which firms use more than one distribution channel to reach one or more customer segments. Traditionally, companies used to rely only on one distribution channel for selling goods in the market. Of late, due to increased segmentation, companies are relying on more than one channel for distributing goods effectively. The practice of adopting more than one marketing channel is also called dual distribution. Firms add channels to leverage the benefits of increased market coverage. If existing channels cannot reach potential new segments, the firm has to employ a new distribution channel that can reach the new segment. Multi-channels are developed to reach different customer segments using different strategies. For instance, Eureka Forbes, which is into water and air purification systems, may use personal selling for industries and institutions to sell its products, as they buy products in large numbers. It may resort to telemarketing for selling products to individual customers.

Exhibit 23.1 illustrates how the emergence of OTT (Over The Top) platform is expected to disrupt the movie industry by transforming the film distribution system in India.

#### **Exhibit 23.1: Indian Film Distribution – Changing Trends**

India produces the highest number of films in the world. Hindi films are the most popular and screened across all part of the country. India also has a number of strong regional film industries, especially in the southern states of Andhra Pradesh, Tamil Nadu, Karnataka, and Kerala and in the eastern state of West Bengal.

*Contd....*

## Block 5: Distribution Management

The Hindi film distribution process in India was a territory-based system where films were sold on cost-per territory basis. A producer sold the film to a distributor, who operated in one or more territories, on the basis of bidding. The distributor who paid a minimum guarantee amount to the producer, in turn sold the film to exhibitors who controlled the theaters in a territory. The exhibitors paid a certain guaranteed amount to the distributor before purchasing the film. Under this system, the costs for marketing the film in a particular territory had to be borne by the distributors.

This distribution system that exists in the Indian movie industry may soon change with the emergence of OTT<sup>13</sup> (Over The Top). Industry experts say that it may disrupt the movie industry. OTT platform enables home delivery of movie or audio or video content through electronic devices when they are connected to the internet. To customers, movie watching is now convenient, accessible and affordable. Sitting anywhere in the world, movie lovers can watch their favourite movie in their smartphones or tabs or laptops.

OTT has the potential to disrupt all players in the value chain - Distributors (all Dish TV operators, TATA Sky etc.), TV broadcasters like Star TV, Zee TV and movie theatres and exhibitors like INOX, PVR etc. because of the low cost. Cinema theatres which are traditional players in entertainment distribution may end up ceding significant market share to OTT. In the year 2019, Bollywood superstar Salman Khan's production house struck a multi-crore deal (for five years) with Amazon Prime Video for streaming Salman Khan's movies post-theatre release. Big deals such as these send a clear message that the movie consumption habits of the public are witnessing a change and that OTT as a way of distributing entertainment will be a game changer.

The Publicis Groupe India in their study, 'Reboot to a New Normal' examined changes in consumption pattern and purchase behaviour during Covid-19 lockdown period. Amidst many demand shifts, the study reported an unprecedented OTT demand spike<sup>14</sup>. With the shutting down of theatres Netflix, Amazon Prime Video, Hotstar, ALT Balaji are some of the brands (OTT platforms) that witnessed surge in subscription. During the lockdown period, when people are starved of entertainment, OTT appears to be the only alternative. Also, industry experts say that this would be a new normal for the entertainment world with cinema halls facing a bleak future.

Content producers too stand to benefit by OTT. Movie producers can make their movies accessible to millions of consumers at a fraction of cost that they currently incur for formal release and promotion. Movie producers can also eliminate the threat of piracy that they currently face by streaming movies through OTT.

*Contd....*

<sup>13</sup> Streaming of videos or content wirelessly through internet

<sup>14</sup> <https://brandequity.economictimes.indiatimes.com/news/media/gaming-and-ott-spike-in-covid-19-lockdown-publicis-report/75173664> Accessed on 19.04.2022

In India, the preference for OTT platforms such as Hotstar, Sony, Sun NXT and Eros Now is growing by the day. The new OTT surge suggests that theatres may soon become a luxury experience for audiences to watch new releases. More movies are likely to hit Netflix, Amazon Prime and Eros Now after initial release. Soon many movies may bypass cinema theatres and may be directly released in OTT platforms. Just as any other industry, the film industry too can survive and flourish only by integrating new technology. The Covid and post-Covid trends suggest that OTT is the upcoming new normal.

Sources: Ankit Chhajer, "How OTT market will be a game changer for the film industry", *Brand Equity, Economic Times*, 10/05/2020 Accessed on 19.04.2022

ETBrand Equity, "Gaming and OTT spike during Covid 19 Lockdown: Publicis Report", 16/04/2020, *Economic Times* Accessed on 19.04.2022

#### **Example: Nike Localizing Content Across Every Channel**

Nike is a note-worthy example of a brand that perfectly implements international omni-channel marketing strategy. They have different versions of their site. What's more astonishing, not only is the language different but content too. Well all know about the importance of customer reviews.

Now, imagine: People from Portugal reading customer reviews given by other Portugese-speaking people. People from China reading customer reviews of Chinese-speaking people. If that's boosting your sales conversion rate, we wonder what will. Nike showcases customer reviews in local language based on the customer's location.

Source: (December 24, 2020). *How to Start a B2B Ecommerce Store in 2021?* - B2BWoo.

Retrieved from <https://b2bwoo.com/blog/omni-channel-strategy/>. Accessed on 20-5-2022

#### **Activity 23.3**

Lee, the flagship brand of Arvind Mills, plans to modify its channel arrangements due to constant changes in customer preferences, emerging competition, expanding markets, and other environmental factors. What kind of modifications can Lee undertake to help increase its market share?

**Answer:**

### **23.8 Managing Channel Relationships**

Once channels are established, they have to function smoothly without hiccups. Managing channel relationships, therefore, becomes an organization's primary function. Good channel relationships can be maintained with the help of mutual understanding between producers and intermediaries. We will now discuss some factors influencing a firm's channel relationship.



## **Block 5: Distribution Management**

### **23.8.1 Cooperation and Coordination**

Maintaining proper relationships with channel members by actively seeking their cooperation and coordination will be advantageous to the company and help it utilize its resources optimally. Here, cooperation can be defined as a channel member's willingness to work with another channel member by developing similar policies, strategies and procedures. For cooperation to exist, it is first important for channel members to coordinate with each other. Coordination can be called the combined efforts of channel members to achieve the channel objectives.

### **23.8.2 Conflict**

If channel members are working in a way that will jeopardize the goal attainment of other channel members, conflict is bound to arise. There are two stages of channel conflict -- the affective/perceptual stage and the manifest stage. In the first, it is perceived that conflict exists. In the second, action is taken based on this perception. A channel member's behaviour, which hampers goal attainment by other channel members, will lead to manifest conflict.

### **23.8.3 Power**

A channel member's capability to change the behavior of another channel member can be termed channel power. There will be no question of power existing if channel members completely agree on all issues. A channel member becomes powerful if it possesses resources that are valuable to another channel member. There are five common types of power relationships:

**Coercive power:** Coercive power exists when one channel member (A) has the capacity to punish the other (B), if (B) is not willing to accept what (A) says. A channel member can extend coercive power on another by decreasing profit margins or by withdrawing exclusive rights given earlier. For instance, manufacturers may reduce profit margins for certain retail outlets if they are not maintaining the specified standard of service.

**Expert power:** A channel member can acquire power if it possesses knowledge relevant to other channel members. Expert power is held by a channel member when it has special knowledge required for proper functioning of the channel. For instance, manufacturers and wholesalers provide retailers with training on sales and promotional activities. Expert power, however, cannot be retained for long periods, as the required expertise is passed on to other channel members gradually. Channel members, therefore, try to retain expert power by methods like limiting the share of expertise and continuously updating themselves on the latest information so that they can pass this on to other channel members.

**Legitimate power:** This power exists when one channel member exerts power on the other, based on legal authority. A contract between two channel members

can be a source of legitimate power. If channel member 'A' asks channel member 'B' to perform according to the contract, then it is legitimate power wielded by 'A'. Manufacturers and wholesalers possess legitimate power over retailers.

**Referent power:** This is power based on a channel member's association or identification with another channel member. Referent power can be found in marketing channels where manufacturers feel proud, if their products are carried by well-known outlets. For instance, a small manufacturer of apparels may take pride if his or clothes line is displayed in leading retail outlets like Shopper's Stop or Lifestyle. Thus, the manufacturer can exercise referent power over other channels.

**Reward power:** Reward power is exercised by a channel member over others when it has the ability to reward them. Manufacturers wield this power by rewarding channel members who are performing better. These rewards can be in terms of higher margins, different promotional allowances, discounts, etc.

These are the various power bases exercised by channel members to achieve their objectives. In practice, they are used in combination for better results.

**Example: Beardbrand Managing Channel Conflict**

Beardbrand offers a line of highly versatile grooming products for beard, hair, and skin supports an ever-growing online community that boasts over one million YouTube Subscribers. Beardbrand has been featured by GQ, Men's Health, Forbes, Fast Company, Shark Tank, and more.

BeardBrand identified channel conflict between selling on Amazon and selling on its website. It solved this by moving completely off Amazon and focusing resources on selling through its direct to customer channel. The result? A 20% increase in sales!

Source: Higgins, S. (October 29, 2021). *Channel Conflict: How to Manage When It All Goes Wrong*. Retrieved from <https://blog.hubspot.com/sales/channel-partner-conflict>; <https://www.linkedin.com/company/beardbrand/>. Accessed on 20-05-2022

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**Check Your Progress - 3**

7. With reference to customer-driven modification of existing channels, which of the following is **not** true?
- Channel modification is essential to meet customer expectations.
  - Usually, it is easy to modify existing channel members.
  - Channels are likely to get stagnated if not modified on a timely basis.
  - Companies that are not able to modify channels tend to fail in the market.
  - Technology plays a major role in influencing customer's choice of a channel.

## Block 5: Distribution Management

8. A channel member's capability to change the behavior of another member is known as channel power. Which type of power is used by a channel member to decrease the profit margins of another channel member?
  - a. Expert power
  - b. Legitimate power
  - c. Reward power
  - d. Coercive power
  - e. Knowledge power
9. Which of the following should ideally be the first step in designing a marketing channel?
  - a. Understanding what customers want from the channel.
  - b. Deciding on the channel objectives
  - c. Exploring possible international opportunities through the channel
  - d. Studying other channel alternatives
  - e. Evaluating the various channel intermediaries
10. Which of the following statements on role of intermediaries is correct?
  - a. Intermediaries match manufacturer to product.
  - b. Intermediaries match products to various regions.
  - c. Intermediaries match supply and demand.
  - d. Intermediaries match dealers with customers.
  - e. Intermediaries match promotion and information.

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### 23.9 Summary

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- Managing channels is one of the most important dimensions of businesses across the world for improving their value in the market. Customers are constantly on the lookout for convenience and service, when purchasing goods.
- Effective channel management helps companies decrease costs and reach potential customers profitably. It involves proper recruitment of channel members. Recruiting channel members should be a continuous process.
- In the recruitment process, screening involves elimination of applicants who do not match the criteria set for the position.
- After effective screening, the company has to make the final selection based on some criteria. These criteria can be divided into sales factors, product factors, experience factors, administrative factors and risk factors.
- After selection channel members have to be constantly evaluated, and based on their performance, the company will either retain existing channel members or try to forge relationships with new channel members.

- Channel members can be evaluated by using parameters like sales quota attainment, average inventory levels, proper management of inventory, channel members' cooperation in promotional and training programmes, etc.
- The distribution requirements of a company will keep changing according to changes in the product life cycle.
- Modifying channels accordingly is essential for the success of the organization. However, care should be taken in dealing with channel members for proper channel management.
- Conflict management among channel members, is another important activity for the management of the organization.

### 23.10 Glossary

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**Dual distribution:** It is the process whereby the manufacturer sells the products produced by him through its self-operated retail stores as well as private retail stores.

**FMCG:** Fast Moving Consumer Goods, goods that move at fast pace generally on monthly basis and the demand for the product keeps on rotating.

**Inventory turnover:** The ratio of net sales to average inventory. It is the number of times (on an average) inventory is sold in a year.

**OTC:** Over-The-Counter products. The term is generally used for those medicines which can be sold at a pharmaceutical store without the prescription of the doctor. The same term has entered into the consumer goods as well where the products are directly sold to the customers.

**Outsource:** Outsource refers to give subcontract to a third-party.

**POP:** POP displays are generally done at retailers point in the form of store front display, window display, showcase display, 'found-space' display etc.

**Product life cycle:** Product life cycle refers to the time period that starts from conception, through design and manufacture, and to service and disposal of a product.

### 23.11 Self-Assessment Exercises

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1. For selecting channel members, who suit the company's requirements, a careful recruiting and screening procedure is essential. Discuss how to recruit proper channel members.
2. Once screening is over, the firm will be left with a small list of potential channel members for selection. From this list, the company has to spot the most suitable channel members who will best fit its requirements. What are the criteria for selecting channel partners?

## **Block 5: Distribution Management**

3. As channel members act as intermediaries between manufacturers and end consumers, companies have to ensure that channel members are motivated enough to put in their best. Explain how to motivate and evaluate channel members.
4. Organization should keep an open mind on modifying existing channel arrangements, periodically. Why and how should organizations modify channel arrangements?
5. 'Managing channel relationships becomes an organization's primary function'. Explain this statement. Discuss the management of channel relationships.
6. What are the various criteria used for selecting channel members? Explain financial factors.

### **23.12 Suggested Readings/Reference Materials**

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1. Venugopal Pingali (2020). "Sales and Distribution Management: An Integrative Approach", SAGE Publications Pvt. Ltd.
2. Nag A (2017). "Sales and Distribution Management," McGraw Hill Education.
3. Tapan K. Panda and Sunil Sahadev (2019). "Sales and Distribution Management," 3rd edition, Oxford University Press.
4. Krishna Havaladar and Vasant Cavale (2017). "Sales and Distribution Management: Text and Cases," Third edition, McGraw Hill Education.
5. Richard R. Still (2017). "Sales and Distribution Management," Sixth Edition, Pearson Education.
6. Bholanath Dutta (2020). "Fundamentals of Sales & Distribution Management: Text & Cases", Dreamtech Press.
7. Gupta S L (2018). "Sales and Distribution Management – Text and Cases An Indian Perspective," Laxmi Publications Pvt. Ltd.

### **23.13 Answers to Check Your Progress Questions**

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#### **1. (a) Select – motivate – evaluate – modify**

There are some key aspects managers should consider for managing channels better. First and foremost, the company has to select and recruit the right channel members. Once this is done, it has to focus on motivating channel members and increasing the firm's profitability. Later, the company has to constantly evaluate the performance of channel members to ensure that they remain competitive in the market. Based on market changes, managers should accordingly modify their channel arrangements.

**2. (c) Complexity of replacing existing channel members**

Recruiting channel members should be a continuous process for two main reasons -- the channel members may leave the organization, and the organization might feel the need to change the existing channel members. Factors influencing these reasons can be numerous such as changes in the company's product policy, or changes in the customers' tastes and preferences.

**3. (e) Experience in handling variety of products**

Once screening is over, the firm will be left with a small list of potential channel members for selection. These channel partners are selected based on some criteria such as sales factors, product factors, experience factors, administrative factors, and risk factors.

**4. (c) Increase the capital employed**

All the statements are true regarding the motivational strategies of channel members, except statement (b). The company should forge stronger relationships with distributors to enhance their performance. It should offer appropriate benefits and incentives to distributors to help them improve the supply chain, reduce the capital employed, lower the operating costs and the risks involved, and engage in sales promotions.

**5. (d) The political connections of the channel partner.**

Channel members can be evaluated using parameters like sales quota attainment, average inventory levels, proper management of inventory, and their cooperation in the promotional and training programs. Firms may consider the political connections of a channel at the time of recruiting and selecting channel members. However, this is not a parameter at the time of evaluation of performance of channel members.

**6. (d) They directly negotiate with companies to get a better deal for members.**

All the options are true regarding the distributor advisory councils except option 'd'. Distributor advisory councils help firms determine the needs and problems of channel members.

**7. (b) Usually, it is easy to modify existing channel members.**

All the statements are true regarding customer-driven modification of existing channels, except statement (b). Usually, it is difficult to modify existing channels because of stiff resistance from existing channel members.

## **Block 5: Distribution Management**

### **8. (d) Coercive power**

Coercive power exists when one channel member (A) has the capacity to punish the other (B), if (B) is not willing to accept what (A) says. A channel member can extend coercive power on another by decreasing profit margins or by withdrawing exclusive rights given earlier.

### **9. (a) Understanding what customers want from the channel.**

Understanding what customers want from a channel is the first step in designing a marketing channel. Other steps including identification of channel objectives follow this first step.

### **10. (c) Intermediaries match supply and demand.**

Intermediaries cater to the demand for products in a specific region by providing access to products. Thus, intermediaries facilitate supply of products to match customer demand for products.

# Sales & Distribution Management

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