STUDY NOTE

UG : SEMESTER----2

Subject: Marketing Management

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LECTURE NO. 03

PHYSICAL DISTRIBUTION

In this lesson, we'll be looking at physical distribution and the movement of finished goods from production to consumer. We will explore the functions of physical distribution and its importance.

Definition

Physical distribution is the group of activities associated with the supply of finished product from the production line to the consumers. The physical distribution considers many sales distribution channels, such as wholesale and retail, and includes critical decision areas like customer service, inventory, materials, packaging, order processing, and transportation and logistics. You often will hear these processes be referred to as distribution, which is used to describe the marketing and movement of products.

Accounting for nearly half of the entire marketing budget of products, the physical distribution process typically garnishes a lot of attention from business managers and owners. As a result, these activities are often the focus of process improvement and cost-saving initiatives in many companies.

Importance of Physical Distribution

The importance of physical distribution to a company can vary and is typically associated with the type of product and the necessity it has to customer satisfaction. Strategically staging products in locations to support order shipments and coming up with a rapid and consistent manner to move the product enables companies to be successful in dynamic markets.

Physical distribution is managed with a systems approach and considers key interrelated functions to provide efficient movement of products. The functions are interrelated because any time a decision is made in one area it has an effect on the others. For example, a business that is providing custom handbags would consider shipping finished products via air freight versus rail or truck in order to expedite shipment time. The importance of this decision would offset the cost of inventory control, which could be much more costly. Managing physical distribution from a systems approach can provide benefit in controlling costs and meeting customer service demands.

Functions of Physical Distribution

The key functions within the physical distribution system are:

• Customer service

• Order processing

• Inventory control

• Transportation and logistics

• Packaging and materials

Physical Distribution: Meaning, Steps, Importance, Factors, Components, Functions, Responsibilities and Other Details

Physical Distribution – Introduction

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

Logistics is coordinating the flow of goods, services, and information among members of the supply chain. A major focus of logistics is physical distribution or marketing logistics, the tasks involved in planning, implementing, and controlling the physical flow of materials, final goods, and related information from points of origin to points of consumption to meet customer requirements at a profit.

Ideally, value is added to goods along each step of the supply chain through activities like superior product design, quality manufacturing, customer service, and efficient delivery. If managed effectively, physical distribution can increase customer satisfaction by ensuring reliable, cost-efficient movement of goods through the supply chain.

Physical distribution involves the handling and moving of raw materials and finished products from producer to consumer often via an intermediary. It is sometimes used synonymously with logistics (the branch of military science concerned with procuring, maintaining and transporting equipment and facilities etc.).

It has been defined as a term employed in manufacturing and commerce to describe the broad range of activities concerned with efficient movement of finished products from the end of production line to the consumer. In short physical distribution refers to the physical flow of the product from producer to consumers. Physical distribution management consists of the design and administration of systems to control the flow of products.

Physical distribution creates ‘time’ and ‘place’ utility, which maximises the value of products “by delivering them to the right customer at the right time and right place.”

There are two dimensions to physical distribution process, the flow of information from the individual customer or organizer to the producer and the flow of materials from the producer to the consumer or the user.

A channel is a passageway that allows the happening of certain processes. Marketing is understood to be an exchange process. Marketing channels help this exchange process to take place. A marketing channel can be defined as a group of exchange relationships, which create customer value in acquiring, consuming and disposing of products and services.

The distribution channel is the movement of goods and services between the point of production and the point of consumption through organization that performs a variety of marketing activities. The major participants in the distribution channel are; producers, intermediaries and consumers.

Physical Distribution – Factors Affecting

Every producer has to find a way to distribute his products to their final users. To distribute, various channels are available in today’s economy. How does a producer select one or more channels of distribution to ensure smooth functioning and minimized cost?

This is understood by studying the factors that influence the choice of distribution channels, which are described below:

1. Product Factors/Considerations:

The first and most important factor that influences on the choice of the channel of distribution is the nature of goods. Perishable goods like cakes and breads that are required to be sold quickly, are sold directly by the manufacturers to the consumers through retail outlets. Goods that last longer can be handled by more intermediaries to insure a larger market.

i. Physical and Technical Nature:

Products which are of low unit value and have common use amongst consumers are generally sold through middle men; whereas, the sale of expensive and elite consumer goods and industrial products is conducted directly by the producer himself.

Products that are perishable, i.e., products which are subjected to frequent changes in fashion or style or trend, as well as those products which are heavy and bulky, go through relatively shorter routes and, are often distributed directly in order to minimize costs and damage.

Industrial products that need demonstration, installation and after sale-services are often sold directly to the consumers; while, retailers generally sell consumer products which are of technical nature.

Certain technical or complex products need installation and advice of product use including demonstration, service visits, etc. For this, having exclusive trained personnel is essential. Some companies prefer exclusive dealership in such cases.

In case of an entrepreneur who produces a large number of products, he may find it economical to set up his own retail outlets and sell his products directly to the consumers. At the same time, companies which have a narrow range of products may make their sale through wholesalers and retailers.

A new product needs greater promotional effort in the initial stages and, hence, few middlemen or intermediaries may be required.

ii. The Market Position:

Here, the focus is on the reputation of the manufacturer. A product promoted by an established and reputed manufacturer has a higher degree of market acceptance and, therefore, can be sold through various channels with little effort. A new product, thus, has quick sales based on the producer’s reputation. This may, however, have long-term risks.

2. Market Factors/Considerations:

i. The Existing Market Structure and Size:

Producers may have to study the existing market structure. It can be geographically concentrated or wide spread. For example, industrial markets are usually concentrated in a few large cities involving only large customers. Producers or channel commanders can have difficulty in changing that.

However, consumer goods market has a different structure, as; it is directly related to, the masses. Consumer preferences dictate channel selection. For example, baby food manufacturers changed their channel of distribution to supermarkets, as; research revealed that mothers preferred super markets over drug stores.

ii. Consumer Behavior and Nature of the Purchase Deliberation:

Purchase decisions are made differently for different products. Consumers spend more time and effort on durables such as washing machine and mobile phone than on a pack of biscuits or toothpaste. The frequency of purchase influences purchase deliberations. Products, which are purchased frequently by consumers, have more buyer-seller contacts and middlemen are suggested.

iii. Availability of the Channel:

Availability of a channel refers to the willingness of channel members to accept a brand. For this, the channel commander or the producer has the task of winning over the cooperation of the channel members. The producer may adopt push or pull strategy. In push strategy, the producer resorts to regular activities of convincing the existing channel members to accept the product and passes it through various points to reach the retailer and then the final consumer.

In the pull strategy, the producer resorts to aggressive promotional activities on the final consumer, relying on the fact that strong consumer demand will force middlemen to accept the product in order to cater to the consumer satisfaction.

iv. Competitor’s Channels:

A new firm always studies the existing distribution pattern and this, necessarily, includes identifying the distribution channels employed by competitors. Every business has certain established norms and practices and this may, even, apply to channels of distribution. If the existing pattern has given success to the competitors, a new firm may adopt the same channel as long as it is suitable and logical. As a matter of fact, finding new avenues may prove to be costlier and cumbersome.

3. Institutional Factors/Considerations:

The channel members also influence the choice of the channel to be selected.

They are briefly discussed as follows:

i. Financial Ability of Channel Members:

In the process of sending the goods through the channels of distribution, it is found that manufacturers need to aid the retail dealers financially, either through, interest free loans, or other credit terms. Credit terms being competitive the willingness to extend credit is a determinant in channel acceptance. Retailers also sometimes finance their suppliers either directly or by investing in the company. Usually, government agencies are restricted from making advance payments.

ii. The Promotional Strengths of Channel Members:

Every producer, i.e., the channel commander, wants his product to be promoted. For national brands, producers themselves take up the responsibility. However, for others, distributors promote jointly with the producer. In case of certain private brands, the job is taken up by wholesalers or retailers who establish the brand name.

iii. The Post-Sale Service Ability:

Many products carry a warranty and this is used by the consumer post purchase. The responsibility of serving the warranty has to be well established. It can be the manufacturer himself or a channel member.

Since the retailer-distributor is the closest in touch with the consumer, the consumer may expect this service from them itself. In certain cases, the product may be returned to the manufacturer for servicing or services may be performed by an independent service outlet established for this purpose.

4. Unit or Firm Specific Factors/Considerations:

Every firm has its own strengths and weaknesses, which influence channel decisions.

Among them, important ones are discussed below:

i. The Company’s Financial Position:

Huge companies, which have the financial and human resource capability may not only produce the goods but also may have the ability to set up their own retail outlets thereby creating a lot of visibility for themselves. On the other hand, smaller companies which do not have either the financial capability or manpower resources might just concentrate on production and leave the marketing of goods to others.

ii. The Extent of Market Control Desired:

Market control refers to the ability of a firm to influence the behavior of channel members according to the will of the management.

Here, the entire distribution network is served by factors such as resale price maintenance, territorial restrictions, quotas and the like. The channel commander, i.e., the producer or the manufacturer, may desire to exercise such command from time to time. The extent to which they want the control is the question to be answered, as, higher the control, higher will be the channel directness.

iii. The Company’s Reputation:

Popular companies, known for their products or services, have little or no problem in settling with a particular channel. This is because reputed companies do not go in search of intermediaries. Instead, the intermediaries come in search of them.

Reputation is reflected through higher sales, timely and quick replenishment of stocks, low levels of inventory, easy settlement of claims, competitive margins granted etc. The selected channel turns out to be cheaper and dependable due to the willingness and cooperation extended by channel members.

iv. The Company’s Marketing Policies:

A company’s marketing strategy lays down the method of distribution. Important factors such as advertising, sales promotion, pricing, delivery and after sale services influence the channel selection the most.

For instance, a company that invests heavily in advertising and sales promotion makes the selected channel direct, as, little effort is required to push the product through the chosen line. Alternatively, a company adopting a price penetration policy, [comes with a low margin], chooses a longer channel.

5. Environmental Factors/Considerations:

i. Economic and Legal Factors:

Due to the economic disparity prevalent in the economy, the government promotes public distribution system through fair price shops to reach out to the economically weak sector. This constitutes the public distribution system, which primarily focuses on the distribution of necessities.

The private distribution system also needs a certain amount of regulation. Much legislation has been passed from time to time to regulate the functioning of the various channels of distribution. One such important legislation is the MRTP Act of 1969.

The provisions of this Act aim at preventing exclusive dealership, regulating territorial restrictions, reselling price maintenance, full line forcing, etc. The Companies Act, 1956, forbids sole selling agency arrangements in industries like paper, cement, vanaspati, etc. Such provisions keep away cut throat competition; prevent creation of monopoly and the like which are objectionable to public interests.

ii. Fiscal Factors:

Sales tax rates vary from state to state as it is a state fiscal matter. Although such sales tax is part of the retail price set for a product, it is actually borne by the final consumer; it has its role to play in channel arrangements.

For example, let us say, sales tax rate in Karnataka is higher when compared to Kerala, a producer may, therefore, take advantage of this benefit, prefer to open his office in Kerala and pass on the reduced tax benefit in the form of reduced price. This can also become a competitive advantage to the product.

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