UNIT 10 CHANNEL AND DISTRIBUTION STRATEGY

Structure

10.0 OBJECTIVES

After studying this unit, you should be able to:

- define the concept of distribution channels;
- explain the importance and functions of middlemen;
- identify the factors affecting the choice of channels; and
- describe the various channel management decisions.

10.1 INTRODUCTION

After producing a good product and pricing it appropriately, marketers need to decide as to how to make the goods available to consumers at their doorstep. Most producers do not sell their goods directly to the final users. There stands a set of intermediaries performing a variety of functions between the producer and consumer. These intermediaries constitute a marketing channel also called the trade channel or the distribution channel. In today's context, channel-level decisions are hugely impacted by online marketing channels such as Amazon. They have caused a huge revolution in space as well as a huge disruption in the physical distribution channels.

According to American Marketing Association (1995), "Distribution channels are the set of firms and individuals that take title or assist in transferring title of the particular goods or services as it moves from the producer to consumer. A channel always includes both the producer and the final customer for the product, as well as all middlemen involved in the title transfer."

Some intermediaries, such as wholesalers and retailers are called *merchants* because they buy goods, take title to them and resell the merchandise to the consumers at a profit. While others, such as dealers, brokers, and distributors are called *agents*. Their job is to simply search for customers and negotiate on the producer's behalf, but they do not take title to the goods and bear the risk. Still, there are others, such as transportation companies, independent warehouses, banks, and advertising agencies whose job is to assist in the distribution process, but they neither take title to goods nor negotiate purchases or sales; they are simply called *facilitators*.

Generally, companies employ middlemen to take advantage of their contacts, experience, specialization, and scale of operations.

Activity 10.1

Visit a nearby market and gather information regarding the various types of middlemen around.

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10.2 CHANNEL LEVELS

The producers and the final customers are part of every channel. The numbers of intermediaries decide the length of the channel.

A zero-level channel-: Also called a direct marketing channel. It consists of manufacturers selling directly to the final customers. The major examples are door-to-door sales, mail-order selling, telemarketing, Internet selling, and manufacturer-owned stores. Amway is an example of direct marketing, Tupperware representatives sell kitchen goods through home parties, Reader's Digest is selling through direct marketing, and some manufacturers are selling their products through Teleshopping, such as home shopping, with the help of hour-long commercials in other words called "infomercials". These days number of companies selling through the Internet is also growing rapidly thereby adding to the success of zero-level channels.

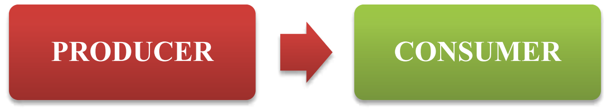

Figure 10.1 Zero-Level Channels

A one-level channel: It contains one selling intermediary, such as a wholesaler/retailer.

Figure 10.2 One-Level Channels

A two-level channel: it contains two intermediaries, generally, in consumer markets, these are typically a wholesaler and a retailer.

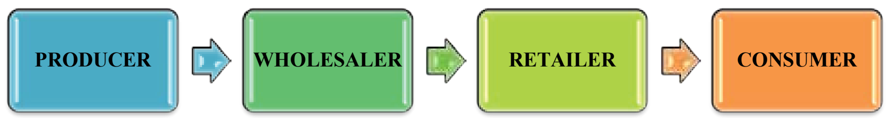

Figure 10.3 Two-Level Channels

A three-level or multilevel channel: it contains three or more intermediaries. In some industries, wholesalers sell to jobbers, who sell to small retailers, who finally sell it to consumers.

Figure 10.4: Multi-Level Channels

So a channel can have various levels depending on various factors which will be discussed later in the Unit.

10.3 IMPORTANCE OF MIDDLEMEN

Middlemen are a very important link between the manufacturer and the consumer. It is important to both as it performs several services for them. There is an old saying in marketing that, "you can eliminate the middleman, but you cannot eliminate their functions (activities)" someone has to perform those activities. It is because of its importance that over the years, the number of intermediaries has been increasing rather than decreasing. Some of the reasons as to why middleman is important to both the consumers and the producers are listed in Table 10.1 as under:

Table 10.1: Importance of Middlemen to Consumers and Producers

For Consumers	For Producers
Anticipate the needs and wants of consumers and feeds the information back to the producers	Disseminates the information regarding the products and services to the consumers and acts as a sales specialist for producers
Does bulk-breaking i.e. dividing large shipments into smaller quantities	Acts as a buffer by keeping stock of the goods and sometimes does bulk-breaking by breaking the bulk into small lots and selling it to the consumers in small lots

Perform storage and warehousing to ensure a smooth supply of goods all the year	Maintains the warehouses on behalf of the producers and bears the storage costs
Transports goods from the place of production to the place of consumption	Transports goods from the place of production to the warehouses
Provides credit facility to consumers	Provides funds in advance to producers
Gives guarantee and warranty on the products	Bears the risk of selling the goods and renders all the after-sales service functions
Provide free installation and repair facility	Performs the research and development services on behalf of producers

10.4 FUNCTIONS OF CHANNEL OF DISTRIBUTION

A distribution channel performs the work of moving goods from producers to consumers. It overcomes the time, place, and possession gaps that separate goods and services from those who have them, to those who want them. Members of the marketing channel perform several key functions as depicted in Figure 10.5:

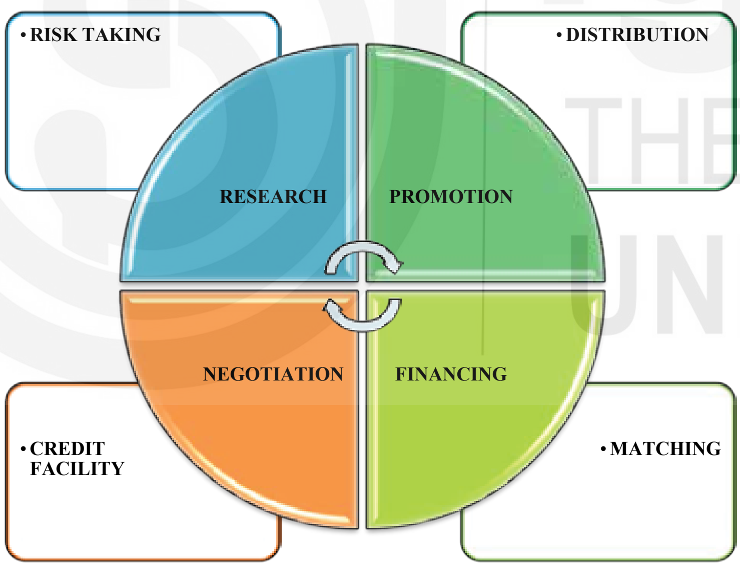

Figure 10.5: Functions of Channel of Distribution

- **Research**- Intermediaries gather information about the current and the potential customers, competitors, and other forces in the marketing environment as they can observe them closely and feed all the information back to the organization to help them in designing their product and marketing strategy.
- **Promotion-**They develops and disseminates persuasive communications to stimulate purchasing.
- **Negotiation**- They make agreements on price and other terms so that transfer of ownership or possession can be pursued

- **Contact**- They place orders with the manufacturers.
- **Financing-** They make the funds available to finance inventories at different levels in the marketing channels.
- **Risk-Taking**- They assume risks connected with carrying out channel work.
- **Transportation-** They provide for the successive storage and the movement of physical products from their place of production to the place of consumption.
- **Credit-facility**- They provide for buyers' payment of their bills through banks and other financial institutions.
- **Matching**-They oversees the actual transfer of ownership from one organization or person to another.
- **Warehousing**-Middlemen at times maintain warehouses and keep the buffer to ensure a smooth supply of goods to the market at all times.

Check Your Progress 10.1

Note: a) Use the spaces given below for your answers.

b) Check your answer with those given at the end of the unit.

1) State whether the following statements are True or False about middlemen:

(i) A middleman designs the product for the consumers and produces them accordingly. (………….)

(ii) They anticipate the needs and wants of consumers and feed the information back to the producers. (………….)

(iii) They perform aggressive promotional activities on behalf of the producer. (………….)

(iv) They provide for buyers' payment of their bills through banks and other financial institutions. (………….)

(v) The middleman does not bear any risk regarding the sale of the product. (…………)

(vi) Performs the research and development services on behalf of producers. (………….)

(vii) Acts as a buffer by keeping stock of the goods and sometimes does bulk-breaking. (………….)

(viii) Provide free installation and repair facilities to the consumers. (………….)

10.5 FACTORS AFFECTING THE CHOICE OF DISTRIBUTION CHANNELS

A company should follow the criteria of the three C's namely channel control, market coverage, and cost that are consistent with the desired level of customer service. While following these three criteria, a company has to take into consideration various factors. Some of the important ones are listed as under:

10.5.1 Market Considerations

The first thing to be observed is whether the product is for consumer or industrial markets. In the case of industrial goods, the channel used is short as they are purchased by some of the buyers in bulk so these orders are to be handled personally and directly by the producer himself.

In the case of consumer goods, the channel is generally long because the number of consumers is large and is generally widely distributed so they can be served by the middleman.

Geographic concentration of the market

The geographic dispersal of the consumer determines the length of the channel; the wider the distribution, the longer is going to be the channel and vice-versa.

Order size of the consumer

In case the consumer prefers to buy in bulk and places large orders, they need to be attended to personally by the manufacturer. So the channel will be short as against this the consumer who buys frequently and in small lots are generally entertained by the middlemen and the channel, in that case, will be longer.

Buying habits of the consumer

In case the consumer is very specific about the purchases, takes very little time, and makes the entire payment in one go; the channel is going to be short because the manufacturer can personally attend them as against this if the consumer wants credit, seeks variety, asks for lots of details, it consumes a lot of time of the manufacturer so the channel is going to be longer because the manufacturer will not be able to attend them personally and will seek the services of the middleman who can perform all these functions very well.

10.5.2 Product Considerations

The basic nature of the product determines the length of the channel and the type of middlemen brought into the picture. Various factors determining the nature of the product are listed as under:

Unit value of the product

Whether the product is cheap or luxurious, if the unit value of the product is less, it is going to be purchased more frequently by a larger number of the consumer so the channel would be longer. While if the unit value is large and it is a luxurious commodity, the channel is going to be short because the consumer will seek the personal attention of the manufacturer and would like to seek lots of clarifications before they finally decide to purchase the product.

Perishability of the product

If the product is perishable in nature, the channel will be short otherwise the quality of the product will deteriorate if it passes through various hands and vice versa.

Technical nature of the product

If the product is highly technical in nature, its various features and composition need to be explained personally by the company's trained sales force or the middlemen. Moreover, in such cases, a consumer will seek lots of after-sales services, guarantees, and warranties, which can be delivered personally by their sales staff only. So in the case of more technical goods, there will be a shorter channel and vice versa.

Size and weight of the product

If the size of the product is bigger, its shape is large and it is a heavy product then the channel will be short because it is difficult to transport and move such goods through various middlemen while if the product is small, compact, and light-weighted, it can be easily transported and transferred from one middleman to another and the channel could be very long.

Standardization and grading of the product

The goods which are standardized in nature, their labeling, packaging, and grading take place in the factory itself, in such cases the channel can be longer because it is convenient to transport such goods to far off places and promote them aggressively through national or international media while, as against this if the goods are loose and unpacked, they cannot be easily transported and promoted to far off places so the channel will be short in that case.

10.5.3 Middlemen Considerations

The choice of a particular channel and the types of middlemen involved depends to a large extent on the availability of the right kind of middlemen and the right set of services being provided by them. Some of the factors taken into consideration are listed below:

Services provided by middlemen

If the product is technical in nature or is something that requires lots of services to be performed by the middlemen, in that case, the willingness and the capability of the middlemen to provide such services will determine the length of the channel. If more services are provided channel will be short or vice versa.

Availability of the desired middlemen

Availability of the middleman is determined by first identifying that they are willing to deal in the manufacturer's goods and secondly ensuring that they are not dealing in any competitor's product or may not be willing to add another product line.

Attitude of the middlemen towards the manufacturer's policies

Whether the middleman is willing to agree to the manufacturer's policies and provide them with all the services asked for.

Financial capability of the middlemen

The middlemen should be financially sound so that they should be in a position to pay back all the money to the producers in time and if the need arises they might be in a position to give advance money to the producers.

Legal constraints

In certain cases, certain legal requirements need to be fulfilled before someone can be appointed as the middleman. For example, medicines can be sold only through pharmaceutical shops being handled by persons who are qualified pharmacists.

10.5.4 Company Considerations

Finally, the decision about the length of the channel and the number of intermediaries involved is taken by the manufacturer keeping into account the following factors:

Financial capability of the company

Managing channels of distribution personally involves a huge monetary investment. If an organization is financially sound and can afford to maintain and manage a large network of shops, they might opt for direct marketing. While as against this, if an organization is running short of funds they might hand over the responsibility of marketing and selling activities to their middlemen.

Ability of the top management

If the top management has marketing and selling skills they might like to handle their marketing and distribution activities themselves and the channel will be short in that case or otherwise they might take the services of a large number of middlemen and the channel will be longer.

Desire for the channel control

If the management wants to retain strong control over the channel members and wants to personally supervise their each and every activity the channel will be short, or vice versa.

Services provided by the seller

If the manufacturer is ready to provide more and more services such as packaging, grading, labeling, promotion, etc. to the middleman, the channel can be long or vice versa.

So to conclude, it can be said that all the factors listed above can determine the length of the channel.

Check Your Progress 10.2

Note: a) Use the spaces given below for your answers.

b) Check your answer with those given at the end of the unit.

1) Define the three C's criteria for the selection of channels.

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2) "The choice of the channel gets affected by the availability and willingness of middlemen". Do you agree?

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10.6 INTENSITY OF MARKET COVERAGE

After deciding about the length of the channel, manufacturers have to decide about the number of intermediaries they are going to use at each channel level. Three strategies, as explained by Philip Kotler (1999), are available as depicted in figure 10.6: exclusive distribution, selective distribution, and intensive distribution.

Figure 10.6: Intensity of Market Coverage

1. **Exclusive distribution**

   It means limiting the number of intermediaries to a bare minimum. It is used when the producer wants to maintain control over the service level and service outputs offered by the resellers. It often involves an arrangement in which the resellers agree not to carry competing brands. By granting Exclusive Distribution, the producer hopes to obtain more dedicated and committed service from the intermediaries. This channel arrangement is generally found in the case of the distribution of new automobiles, some major appliances, and some women's apparel brands.

2. **Selective distribution**

   It involves the use of more than a few but less than all of the intermediaries who are willing to carry a particular product. It is used by established companies, and by new companies seeking distributors. The company does not have to put its efforts into too many outlets; it enables the producers to gain adequate market coverage with more control and less cost than Intensive Distribution. Nike, the world's largest athletic shoemaker, is a good example of Selective Distribution. Consumer shopping, specialty goods, and industrial accessory equipment are included in this category.

3. **Intensive distribution**

   It means selling the products through every outlet where the final consumer will reasonably look for them. It involves the process of the manufacturer placing the goods or services in as many outlets as possible. This strategy is generally used for consumer convenience goods where the consumer demands immediate satisfaction and prefers buying products that are conveniently available to them right next door.

   Finally, whether the company would like to go in for exclusive, selective, or intensive distribution depends to a large extent on their economic viability, control criteria, and the adaptability of the channel to the product. So designing a channel system calls for analyzing customer needs, establishing channel objectives, and identifying and evaluating the major channel alternatives.

Activity 10.2

Visit a nearby market and make a list of products that are distributed intensively, selectively, and exclusively.

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10.7 CHANNEL MANAGEMENT DECISIONS

Once the decisions about the type of middleman involved are made, it is important to integrate them into the supply chain and provide opportunities to make profits. There are certainly important elements which are to be taken into consideration, such as:

Distributors' territorial rights: It is very important to define the distributors' territories and the terms under which the producer will enfranchise other distributors so that there should not exist any confusion between them.

Conditions of sales: There should be clear with regards to the payment terms and the producer guarantee. Most producers grant cash discounts to distributors for early payment, they might also guarantee distributors against defective merchandise or price declines or take the goods back if they are not sold.

Price policy: This calls for the producer to establish a price list and schedule of discounts and allowances that the middleman can see as equitable and sufficient.

Mutual services and responsibilities: These are conditions that must be carefully spelled out, especially in franchised and exclusive agency channels. Terms and conditions should be clearly laid out regarding the physical facility being provided by the producer, promotional policies, furnishing requested information and buyback supplies from specified vendors.

1) **Selecting the channel members**

   Selection of the channel members is done very carefully by the producer. Before selecting any middlemen the producer would want to evaluate the number of years he has been in business, other product lines dealt with, growth and profit record, solvency, cooperativeness, and their reputation.

   If the middlemen are sales agents, producers will want to evaluate the number and nature of other product lines carried out by them. If the intermediaries are departmental stores that want exclusive distribution, the producer will want to evaluate their location, future growth potential, and the type of clientele.

2) **Motivating channel members**

The company needs to determine intermediaries' needs and arrive at an arrangement where they can deliver superior value to them. It is very important to keep the channel members highly motivated to ensure their best performance and commitment to the organization. The task of motivating channel members starts with understanding their basic needs and wants and trying to provide them with some incentive to work efficiently with the producer.

The producer can make use of various types of powers to elicit cooperation, as depicted in Figure 10.8

Figure 10.8: Sources of Power for Middlemen

Coercive power- Occurs when the use of force is made by the manufacturer to threaten the intermediaries that they will withdraw the contract or terminate the relationship if intermediaries fail to cooperate or agree to their terms and conditions.

Reward power- This is a positive approach in which the manufacturer offers intermediaries an extra benefit for performing certain specific acts or functions. They are rewarded for rendering better services to the manufacturer's customers in various forms of financial and non-financial incentives.

Legitimate power- In this case use of legal power is made. A formal contract is entered into between the manufacturer and the intermediary and the intermediary has to strictly follow all the terms and conditions otherwise the manufacturer can take them to the court of law.

Expert power- Can be applied when the manufacturer has some special or technical knowledge that the intermediary values. This expert knowledge needs to be shared with the intermediaries to equip them to perform their job effectively. So the fear of losing that expert knowledge can serve as a strong motivator for the intermediaries.

Referent power- Occurs when the manufacturer is so highly respected that intermediaries feel proud to be associated with them. Companies like McDonald's, Sony, IBM, Mercedes, and BMW have high referent power.

3) **Evaluating and modifying channel arrangements**

Producers must periodically evaluate intermediaries' performance against standards such as sales quota attainment, average inventory levels, customer delivery time, treatment of damaged and lost goods, and cooperation in promotional and training programmes. They might have to modify channel arrangements if the middleman's performance is not found satisfactory or up to the mark.

10.8 TYPES OF MIDDLEMEN

After discussing the need for middlemen, let's now discuss the various types of middlemen available. The various types of middlemen can be broadly divided into two categories: agent middleman and merchant middleman.

10.8.1 Agent Middleman

Agent middleman is also known as a functional middleman and mercantile agent. These are those marketing institutions that assist in the transfer of the title of goods without taking any title to them, act as an agent of the owner of goods, and take his remuneration in the form of brokerage or commission. They serve the interests of both the buyers and the sellers.

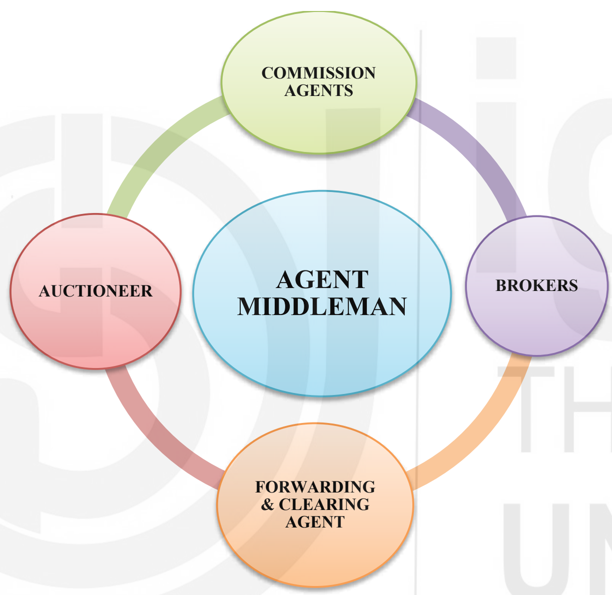

Figure 10.9: Types of Agent Middleman

Commission Agent- Commission agents work on a commission basis and try to sell goods on behalf of the producer to the consumer without taking any title to goods. Their job is simply to bring the buyers and sellers together on a common platform and initiate discussions amongst them and finalize of transaction. Example property dealers.

Broker- Brokers generally deal in buying and selling of shares, bonds, or debentures on behalf of buyers or sellers. They charge a brokerage for their services. For example, share brokers, etc.

Forwarding and clearing Agents- Forwarding agents are those who help in the export of goods by picking up the goods from the place of production, carrying them to the nearest port, fulfilling all the customs requirements, and finally ensuring the shipment of goods on behalf of the producer. The Clearing agent on the other hand receives the consignment coming from abroad at the port, performs all the customs formalities, and ensures that goods are made to reach their destination. For the services performed, these brokers/agents charge the commission.

Auctioneer- Auctioneer agent is the one who helps in the sales of property or any other goods by conducting the auction and selling the goods to the highest bidder.

10.8.2 Merchant Middlemen

According to **American Marketing Association (1995)**, "merchant middlemen are those intermediaries who take the title to goods, bear the risks, perform various marketing functions and hope to gain by making profits on transactions."

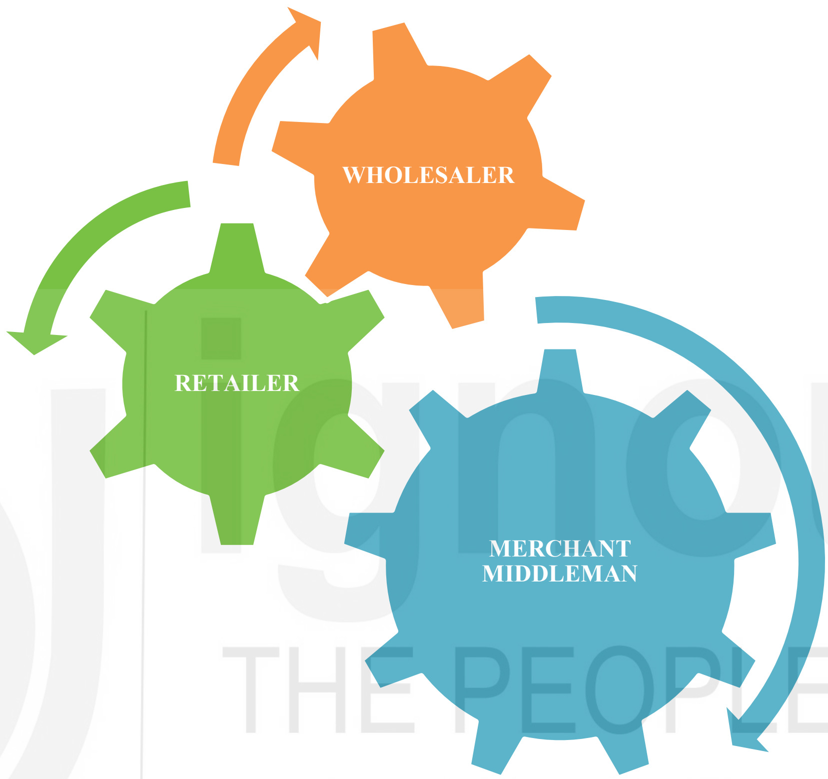

Figure 10.10: Types of Merchant Middleman

1. **Wholesaler:** According to **American Marketing Association (1995),** "a wholesaler is a business unit which buys and resells merchandise to retailers and other industrial users and/or commercial users but doesn't sell a significant amount of goods to the ultimate consumer."

2. **Retailer:** According to **American Marketing Association (1995),** "a retailer is a merchant or occasionally an agent or a business unit whose main business is selling the goods directly to the ultimate consumer for non-business use."

Table 10.2: Difference between retailers and wholesalers

Wholesalers	Retailers
• Buys in bulk	• Buys in small lots
• Do not sell goods to the ultimate consumers	• Sell the goods to the ultimate consumers
• Might sell in bulk for business use	• Get goods from a wholesaler and sells for personal consumption
• Promote the product	• Never promote, just pass the information through word of Mouth

• Concentrated at small places	• Widely distributed
• Provide goods on credit to the retailers	• They generally do not sell goods on credit

Table 10.3: Functions performed by merchant middleman

Wholesalers	Retailers
Bulk buying from manufacturers	Assembling from various sources and keeping a wide assortment of goods under one roof
Bulk breaking for customers	Grading and packing for customers
Selling to other channel members	Selling to ultimate consumers
Promoting products	Undertakes sales promotion activities through window displays and point-of-purchase display materials
Warehousing and storage function to ensure the smooth supply of goods all the year-round	Keeps buffer-sells in convenient lots at convenient places and time intervals to consumers
Risk-taking	Risk bearing
Transportation	Maintains personal contact with the customers
Financing producers	Giving credit facilities to customers
Disseminating marketing information	Giving consumer feedback to the producer or wholesalers

Check Your Progress 10.3

Note: a) Use the spaces given below for your answers.

b) Check your answer with those given at the end of the unit.

1) Differentiate between agent middleman & merchant middleman.

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2) Define wholesalers.

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10.9 CHANNEL DYNAMICS

Distribution channels do not standstill. New wholesaling and retailing institutions emerge and new channel systems develop. We will look at the recent growth of vertical, horizontal, and multichannel marketing systems and how these systems cooperate, conflict, and Compete. Figure 10.11 depicts the three types of distribution systems as under:

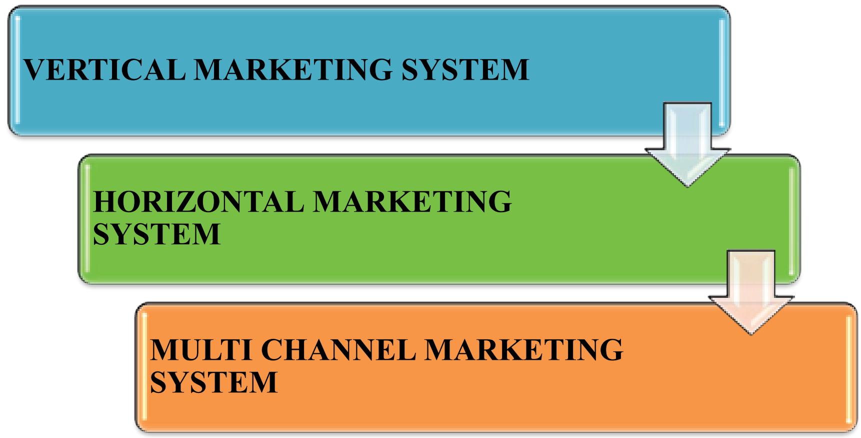

Figure 10.11: Types of Distribution Systems

1) **Vertical Marketing System (VMS)**

A conventional marketing channel comprises an independent producer, wholesaler(s), and retailer(s). Each is a separate business seeking to maximize its profits, even if this goal reduces profit for the system as a whole. No channel member has complete or substantial control over other members.

A vertical marketing system, by contrast, comprises the producer, wholesaler(s), and retailer(s) acting as a unified system out of which one of them emerges to be the channel caption and others agree to follow him. Vertical marketing system arose as a result of strong channel member's attempt to control channel behavior and eliminate the conflict that results when individual channel members pursue their objectives. They achieve economies through size, bargaining power, and elimination of duplicated services, for example, manufacturers of a dominant brand can secure strong trade cooperation and support from resellers. Procter and Gamble can command high levels of cooperation from their resellers in connection with displays, shelf space, promotions, and price policies.

2) **Horizontal Marketing System (HMS)**

In this channel development, two or more unrelated companies put together resources or programs to exploit an emerging marketing opportunity. Each company lacks the capital, know-how, production, and marketing resources to venture alone, or it is afraid of the risk. The companies might work with each other on a temporary or permanent basis or create a joint venture company, for example, the car companies enter into a contract with various banks and provide zero percent financing on easy terms and conditions to customers to facilitate the purchase of the cars. This brings business both to car companies as well as to banks.

3) **Multichannel Marketing System (MMS)**

This occurs when a single firm uses two or more marketing channels to reach one or more customer segments. It gives three benefits to the company: first, **increased market coverage**-as companies can add more and more channels to reach consumers segments currently not reachable. Secondly, **lower channel cos**t- companies may add a new channel to lower the cost of selling to an existing customer group, for example, selling by phone rather than personally visiting small customers. Third, **more customized selling**- companies may add channels whose selling features fit customers' requirements better, for example adding a technical sales force to sell more complex equipment.

But these gains come at a price, new channels introduce conflict and control problems, may end up competing between themselves for the same set of consumers, or may make coordination and cooperation more difficult.

10.10 MARKET LOGISTICS

Physical distribution starts at the factory level. This is where the managers decide about the location of warehouses (stocking points) and the transportation system which delivers the goods to the final destinations in the desired time or at the lowest total cost. Physical distribution has now been expanded into the broader concept of Supply Chain Management (SCM). Supply Chain Management starts before the products have been produced—it involves procuring the right inputs (raw materials, components, and capital equipment), converting them efficiently into finished products, and dispatching them to the final destinations. The supply chain perspective can help a company identify efficient and sincere suppliers and distributors who always deliver the raw materials in time and at the right price so that the manufacturer can have timely production and delivery of goods at low costs.

Market logistics involves planning the infrastructure to meet the demand effectively and profitably. In other words, it is implementing and controlling the physical flow of materials and final goods from point of origin to points of use, to meet customer requirements at a profit.

The market Logistics task calls for an integrated logistics system (ILS), involving materials management, materials flow systems, and physical distribution abetted by information technology (IT).

Market logistics planning has four steps:

1. To decide about the best way to deliver quality products to consumers at a low cost.
2. To decide about the best channel options available for reaching the customers.
3. To develop an efficient system for conducting sales forecasts and handling, warehouses, transportation, and material management.
4. To implement the solutions with the help of various information systems, equipment, policies, and procedures to ensure efficiency and an effective timeline.

Market Logistics involves a process of ensuring a smooth assembly line production, efficient upkeep of goods in warehouses, and an excellent transportation system to ensure smooth and timely delivery of goods to the consumers throughout the year. The first step is sales forecasting, with the help of various forecasting techniques, the organization would like to project the likely demand for the next year or so, and based on the forecast they can schedule production, distribution, and inventory levels. Production plans indicate the raw materials to be purchased by the purchasing department to ensure smooth production. These materials arrive through inbound transportation, enter the receiving area, and are stored in a raw material inventory. Raw materials are converted into finished goods. Finished goods are kept in warehouses as inventory to ensure the smooth supply of goods in the market with the help of efficient transportation systems.

10.10.1 Market Logistics Objectives

Many companies state their Market Logistics objectives as getting the right goods to the right place at the right time for the least cost. However, it is difficult for the organizations to ensure everything and maintain low cost because if they want to deliver quality goods to their customers with the best of services throughout the year, they do have to spend a huge amount on keeping multiple warehouses, efficient packaging and quick transportation system, all of which raises the Market Logistics cost.

Given the Market Logistics objectives, the company must design a system that should help them to achieve those objectives efficiently and with minimum cost and loss of customers. According to Philip Kotler (1999), an efficient Market Logistics system will have the following cost:

$$M = T + FW + VW + S$$

Where

M= total market logistics cost of the proposed system

T = total freight cost of the proposed system

FW = total fixed warehouse cost of the proposed system

VW = total variable warehousing cost (including inventory) of the proposed system

S = total cost of lost sales due to average delivery delay under the proposed system

Choosing a market logistics system calls for examining the total cost (M) associated with different proposed systems and selecting the system that minimizes it. It is hard to measure S (lost sales), so the company should aim to minimize T + FW + VW for a target level of customer service.

10.10.2 Market Logistics Decisions

According to Philip Kotler (1999), four major decisions must be made concerning market logistics as depicted in Figure 10.12:

1) How should orders be handled? (order processing)
2) Where should stocks be located? (warehousing)
3) How much stock should be held? (inventory)
4) How should goods be shipped? (transportation)

Figure 10.12: Market Logistics Decisions

Order Processing: Most of the companies today are trying to shorten the order-to-payment cycle, that is, the time between an order's receipt, delivery, and payment. This cycle involves many steps, including receiving the order from customers, making an entry, scheduling the production accordingly, arranging for transportation and delivery, and collecting the payment. Therefore, the organization should make an effort to ensure a smooth process and give the customers maximum satisfaction and increase the company's profitability.

Warehousing: Every company has to maintain warehouses so that they are able to store finished goods and ensure a balance between production and consumption. Another important decision regarding warehousing is to decide about the number and location of the warehouse, i.e. whether it should be located near the market or the production plant. Maintaining more stocking locations and that too near the market can mean that goods can be delivered to customers more quickly, but it will also result in higher warehousing and inventory costs. Thus, it becomes essential for the organization to carefully decide about the inventory levels which are to be kept at or near the plant, and those to be located in warehouses in other locations. The company might own private warehouses and also rent space in the public warehouses.

Inventory: Inventory levels represent a major cost. Salespeople would like their company to carry enough stock to handle all customer orders immediately. However, this is not cost-effective as maintaining higher levels of inventory will add to blocked investment. Maintaining the quality of goods in the warehouses with the help of refrigeration and other means will further add to the cost. Therefore, the management needs to know how much their sales and profits would increase as a result of carrying larger inventories and promising faster deliveries to their customers, and accordingly make a decision. Inventory decision-making further involves knowing about the order-reorder cycle of the consumers. If they are in the habit of placing larger orders, the frequency of orders placed will be less and the organization will be able to manage with low inventory levels. The company needs to balance order-processing costs and inventory carrying costs. If the suppliers are dependable, then the manufacturer can carry much lower levels of inventory and still meet customers' expectations by delivering orders in time. The basic idea is to arrange for well-timed flows, not stocks.

Transportation: Transportation decision plays a very important role in Market Logistics because the efficiency with which goods are delivered on time and the quality depends on them. In shipping goods to its warehouses, dealers, and customers, the company can choose among five transportation modes— rail, air, truck, waterway, and pipeline. While transporting the goods, marketers have to consider various criteria, such as speed, frequency, dependability, capability, availability, traceability, and cost. For speed, air and truck are the prime contenders. If the goal is low cost, then it is waterways and pipelines. In deciding on its transportation modes, marketers can choose from the private, contract, and common carriers. They can decide to send their goods through airlines, the Indian railways, waterways, or various road transport organizations.

- **Piggyback** describes the use of rail and truck
- **Fishy pack** describes the use of water and truck
- **Train ship** describes the use of water and rail
- **Air truck** describes the use of air and truck

Producers of physical products and services must decide on the market logistics-the best way to store and move their goods and services to the market destination. The logistics task is to coordinate the activities of suppliers, purchasing agents, manufacturers, marketers, channel members, and customers. Major gains in logistical efficiency have come from advances in information technology. Although the cost of market logistics can be high, a well-planned market-logistics program can be a potent tool in competitive marketing. The ultimate goal of market logistics is to meet customers' requirements efficiently and profitably.

Online Marketing Channels

Online marketing in the agricultural sector:

Traditional agricultural value chains involve multiple intermediaries between farmers and consumers. Typically, farmers sell their produce at the farm gates to middlemen. Produce then passes through multiple intermediaries before reaching the end customer. As a result, farmers receive only a small proportion of the price paid by the end consumer as each intermediary in the value chain earns a margin. Agri e-commerce provides an opportunity to streamline the agricultural value chain and reduce inefficiencies in the distribution of farm produce. It represents a new way for farmers to sell their products to an array of buyers, including agribusinesses, retailers, restaurants, and consumers. Agri e-commerce also increases farmers' access to new markets and adds transparency to the value chain. It enables farmers to bypass several intermediaries, resulting in higher income for the farmers, reduced wastage, and the potential to deliver fresher produce to customers. Such benefits are especially significant in developing regions, where more than 97% of people employed in agriculture live and where the sector's contribution to GDP is in double digits.

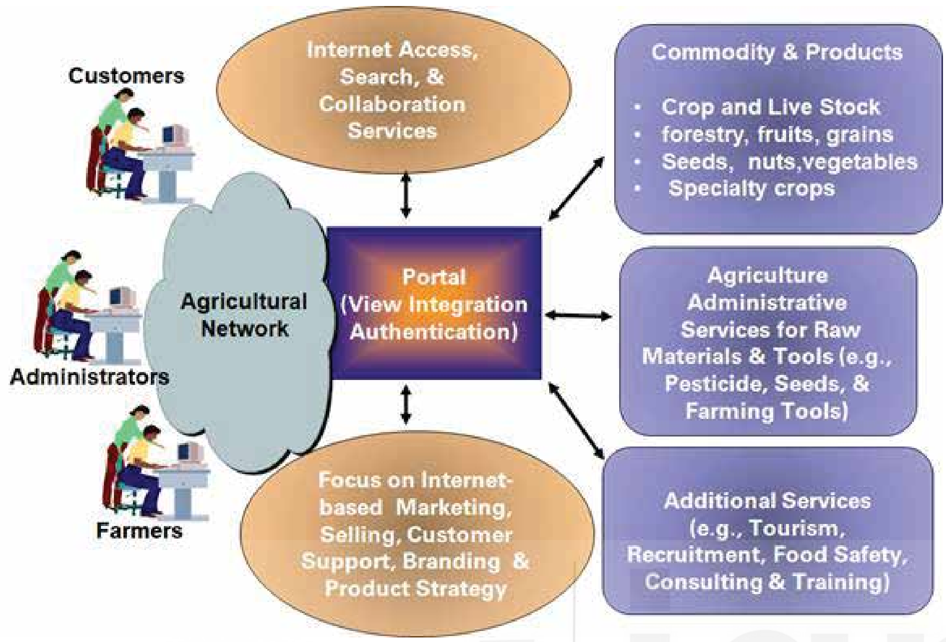

Fig 10.13: e-Commerce for Agriculture

Source: http://space4ict.com/es/viewSer.aspx?s=AgriEA

Case study: **A Case study for Agricultural Mobile Commerce Application Using Oauth Based Real-time Information Sharing Technique.**

This study explains an agricultural mobile commerce case using Oauth Based Real-Time Information Sharing Technique according to the growth of the agricultural e-commerce market. Considering the characteristics of the agricultural market, it can confirm differential values with the existing agricultural mobile commerce market according to the functions and characteristics of its technique. We compare variables for introducing agricultural mobile commerce with the existing mobile commerce. Trust through information sharing with real-time farming diaries, suitability, and perceived ease of use variables are positively influenced, but the influence on completeness and authority of information variables are relatively insufficient. Through this, we explained the differential values of agricultural mobile commerce and suggested an applicable business model.

Source: Do, J. R., Jang, I. H., Kim, J. H., & Choe, Y. C. (2015). A Case study for Agricultural Mobile Commerce Application Using Oauth Based Real-time Information Sharing Technique. *Agribusiness and Information Management*, *7*(1), 37-44.

Check Your Progress 10.4

Note: a) Use the spaces given below for your answers.

b) Check your answer with those given at the end of the unit.

1) Explain the concept of market logistics.

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(2) List out the important decisions made in market logistics.

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10.11 LET US SUM UP

- Most producers do not sell their goods directly to the final users. Channels of distribution are used to distribute goods from the place of production to the place of consumption.
- A distribution channel overcomes the time, place, and possession gaps that separate goods and services from those who make them to those who need or want them. Members of the marketing channel perform several key functions: research, promotion, contact, negotiation, financing, risk-taking, matching, Credit-facility, transportation, and warehousing.
- In the case of industrial goods, the channel used is generally short as these goods are purchased by some of the buyers in bulk so the orders are to be handled personally and directly by the producer himself.
- In the case of consumer goods, the channel is generally long because the number of consumers is large and is generally widely spread so they can be served better by the middleman.
- The choice of a particular channel and the types of middlemen involved depends to a large extent on the availability of the right kind of middlemen and the right set of services being provided by them.
- Manufacturers also have to decide about the number and intensity of intermediaries they are going to use at each channel level. For this three strategies are available to them: exclusive distribution, selective distribution, and intensive distribution.
- Before selecting any middlemen the producer would want to evaluate the number of years he has been in business, other product lines dealt with, growth and profit record, solvency, cooperativeness, and their reputation.
- The various types of middlemen can be broadly divided into two categories: agent middleman and merchant middleman.
- Agent middleman is also known as a functional middleman and mercantile agent. These are those marketing institutions that assist in the transfer of the title of goods without taking any title to them, act as an agent of the owner of goods, and take his remuneration in the form of brokerage or commission.
- Merchant middlemen are those intermediaries who take the title to goods, bear the risks, perform various marketing functions, and hope to gain by making profits on transactions.
- A wholesaler is a business unit that buys and resells merchandise to retailers and other industrial users and/or commercial users but doesn’t sell a significant amount of goods to the ultimate consumer.

- A retailer is a merchant or occasionally an agent or a business unit whose main business is to sell the goods directly to the ultimate consumer for non-business use.
- Distribution channels do not standstill. New wholesaling and retailing institutions emerge and new channel systems develop, such as vertical marketing systems, horizontal marketing systems, and multiple marketing systems.
- Market logistics involves planning the infrastructure to meet the demand effectively and profitably. In other words, it is implementing and controlling the physical flow of materials and final goods from point of origin to points of use, to meet customer requirements at a profit.
- There are four major market logistics decisions taken by marketers, such as, how should orders be handled? Where should stocks be located? How much stock should be held? How should goods be shipped?
- The ultimate goal of market logistics is to meet customers' requirements efficiently and profitably.

10.12 KEYWORDS

Agri-business- Farms, food-processing firms, and other large-scale farming-related enterprises.

Channel conflict- A situation in which one channel member perceives another channel member to be acting in a way that prevents the first member from achieving its distribution objectives.

Channel control- The actions of a firm to regulate the behaviour of other companies in its distribution channel.

Channel power- The ability of a firm to influence or determine the behaviour of another channel member.

Contractual vertical market system- An arrangement under which independent firms-producers, wholesalers, and retailers-operate under contracts specifying how they will operate to improve their distribution and efficiency, and effectiveness.

Direct marketing- A form of non-store retailing that uses advertising to contact consumers who, in turn, purchase products without visiting a retail store.

Exclusive distribution- A strategy in which a supplier agrees to sell its products only to a single wholesaling middleman or retailer in a given market.

Physical distribution management- The development and operation of the process resulting in the effective and efficient physical flow of products.

Wholesaling middlemen- A firm engaged primarily in sale and all activities directly related to the sale of goods and services to businesses and other organizations for resale, used in producing other goods and services, or operating an organization.

10.13 SUGGESTED READINGS / REFERENCES

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10.14 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress 10.1

1) True/False

   (i) False (ii) True (iii) False (iv) True (v) False (vi) True (vii) True (viii) True

Check Your Progress 10.2

1) Channel control, coverage, and cost

2) It is not the only decision to decide whether to bring in the middleman but rather more important is to search for the right kind of middleman, who should be able to provide the set of services required by the manufacturer and should be willing to deal in the company's products. The attitude and the financial capability of the middleman play an equally important role in their choice.

Check Your Progress 10.3

1) Agent middlemen are those marketing institutions that assist in the transfer of the title of goods without taking any title to them, act as an agent of the owner of goods, and take his remuneration in the form of brokerage or commission. While merchant middlemen are those intermediaries who take the title to goods, bear the risks, perform various marketing functions, and hope to gain by making profits on transactions.

2) A wholesaler is a business unit that buys and resells merchandise to retailers and other industrial users and/or commercial users but doesn't sell a significant amount of goods to the ultimate consumer.

Check Your Progress 10.4

1) Market logistics involves planning the infrastructure to meet the demand effectively and profitably. In other words, it is implementing and controlling the physical flow of materials and final goods from point of origin to points of use, to meet customer requirements at a profit.

2) Four major decisions must be made regarding market logistics:

   - How should orders be handled? (order processing);
   - Where should stocks be located? (Warehousing);
   - How much stock should be held? (inventory); and
   - How should goods be shipped? (transportation)

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