Chapter Objectives

To discuss the role of the value chain and the value delivery chain in the distribution process
To explore distribution planning and review its importance, distribution functions, the factors used in selecting a distribution channel, and the different types of distribution channels
To consider the nature of distribution contracts, cooperation and conflict in a channel of distribution, the special aspects of a distribution channel for industrial products, and international distribution
To examine logistics and demonstrate its importance
To discuss transportation alternatives and inventory management issues
Factors to Consider in Selecting a Distribution Channel

- The Consumer
- The Company
- The Product
- The Competition
- Distribution Channels
- Legalities

A Direct Distribution Channel

In this direct channel, an umbrella manufacturer sells directly to final consumers. It makes 200,000 separate transactions, one for each customer.

200,000 Customers

An Indirect Distribution Channel

In this indirect channel, an umbrella manufacturer makes only 4 transactions. It sells to regional wholesalers, which resell to 50 retailers each. The retailers each sell to 1,000 final consumers.

Typical Indirect Channels of Distribution

Pushing Versus Pulling Strategies

Intensity of Channel Coverage

A firm severely limits the number of resellers in an area. It seeks a prestige image, channel control, and high profit margins and accepts lower total sales.

A firm employs a moderate number of resellers in an area. It tries to combine some channel control and a solid image with good sales volume and profits.

A firm uses a large number of resellers in an area. Its goals are to have wide market coverage, channel acceptance, and high total sales and profits. Per-unit profits are low.
International Distribution Planning

International distribution requires additional considerations and planning:
- The channel length may depend on a nation's stage of economic development.
- Less-developed and developing nations tend to use shorter, more direct channels than industrialized ones.
- Limited transportation and communication networks foster local shopping.
- Cultural norms always affect channel member interactions.

Logistics

- Logistics, also known as physical distribution, encompasses the broad range of activities concerned with efficiently delivering raw materials, parts, semi-finished items, and finished products to designated places.
- Logistics includes customer service, shipping, warehousing, inventory control, trucking operations, packaging, receiving, materials handling, and plant, warehouse, and store location planning.
- Logistics affects costs, the value of customer service, and its relationship with other functional areas.

Logistics and Other Functional Areas

There is a critical interaction between logistics and each of the firm's marketing functions and this requires careful coordination.
- Product variations (color, size, features, styles) may impose a burden on distribution facilities.
- Logistics planning is related to overall channel strategy.
- Promotion campaigns must realistically coordinate with potential logistics delivery.
- Pricing may be the firm's differential advantage based on superior logistical service.

Selected Physical Distribution Activities Involved in a Typical Order Cycle

- Customer places an order
- Supplier receives and enters order
- Orders shipped to individual customers
- Goods stored until enough orders are placed
- Goods packaged, sorted, tagged, and sent to local warehouse
- Goods on hand checked

An Illustration of the Total-Cost Approach in Distribution

<table>
<thead>
<tr>
<th>Carrier</th>
<th>Costs</th>
<th>Annual Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air</td>
<td>$1,6 mil.</td>
<td>$1.6 mil.</td>
</tr>
<tr>
<td>Rail</td>
<td>$0.5 mil., $0.5 mil., $1.4 mil.</td>
<td>$0.5 mil., $0.5 mil., $1.4 mil.</td>
</tr>
<tr>
<td>Truck</td>
<td>$0.1 mil., $0.2 mil., $0.2 mil.</td>
<td>$0.1 mil., $0.2 mil., $0.2 mil.</td>
</tr>
</tbody>
</table>

What Happens When a Firm Has Stock Shortages

- Most Desirable Action
  - Wait until merchandise is available
  - Purchase a substitute product from the same seller
  - Switch to a new seller while merchandise is not available
- Least Desirable Action
  - Permanently switch to a new seller for all purchases
5 Transportation Forms for Shipping

- Railroads carry heavy, bulky items over long distances but have high fixed costs due to facility investments.
- Motor Carriers usually transport small shipments over short distances and handle 80% of U.S. shipments weighing less than 500 or 1,000 pounds.
- Waterways in the U.S. include barges on inland rivers, and tankers and freighters on Great Lakes, and intercoastal shipping.
- Airways are fast and expensive but move high-value perishable and emergency goods. Speed may provide a differential advantage.
- Pipelines move gas and petroleum products with minimum handling and labor costs.

Inventory Management

- Good inventory management provides a continuous flow of goods and matches the quantity of goods kept in inventory as closely as possible with customer demand.
- To improve their inventory management, many firms are applying a just-in-time inventory system and electronic data interchange.
- Four specific aspects of inventory management are stock turnover, when to reorder, how much to reorder, and warehousing.
- Stock turnover refers to the number of times during a stated period (usually one year) that average inventory on hand is sold. It shows the relationship between a firm's sales and the inventory level it maintains.
- A reorder point depends on order lead time, the usage rate, and safety stock.
- The economic order quantity (EOQ) is the order volume corresponding to the lowest sum of order processing and inventory holding costs.

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- It considers the nature of distribution intermediary contracts, cooperation and conflict in a channel of distribution, the special aspects of a distribution channel for industrial products, and international distribution.
- It examines logistics and demonstrates its importance.
- It discusses transportation alternatives and inventory management issues.