

## E216 Distribution and Transportation

# Problem 02

## Fruits

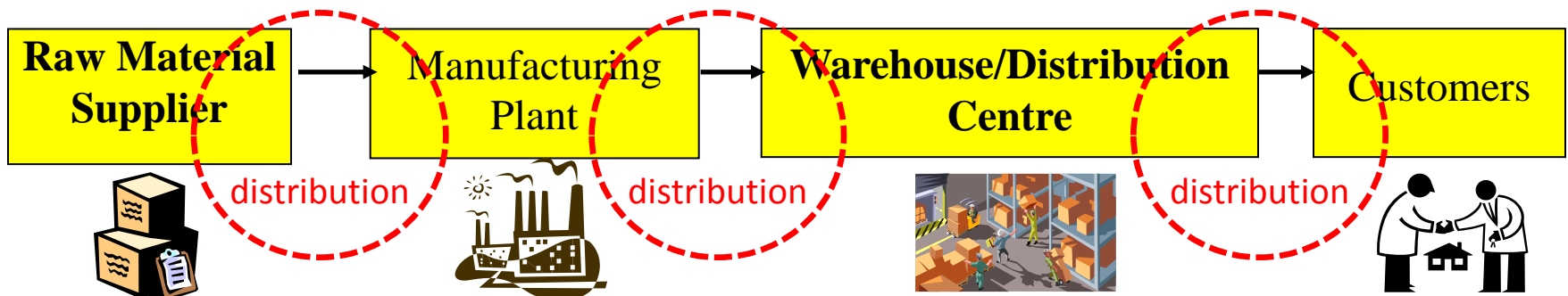
- Functions of distribution channels
- Types of channel intermediaries
- Channel partners and their involvement
- Selection and evaluation of distribution channels

SCHOOL OF  
ENGINEERING

# Distribution



- **Distribution** refers to the steps taken to move and store products from the supplier stage to a customer stage of the supply chain
  - Concerned with ensuring the product/intermediate product is in the right place at the right time
- Distribution occurs between every pair of stages in the supply chain
  - Raw materials moved from suppliers to manufacturers.
  - Finished products moved from manufacturer to customer



# Number of Channels Without Intermediary



## Products (P)



Kleenex – Tissue Papers



Energizer - Batteries



Everbloom - Mushrooms



Tupperware – Food Containers



Ayam brand – Can Sardines



Nestle - Cereals

## Customers (C)

Mary



Annie



Sam



Sean

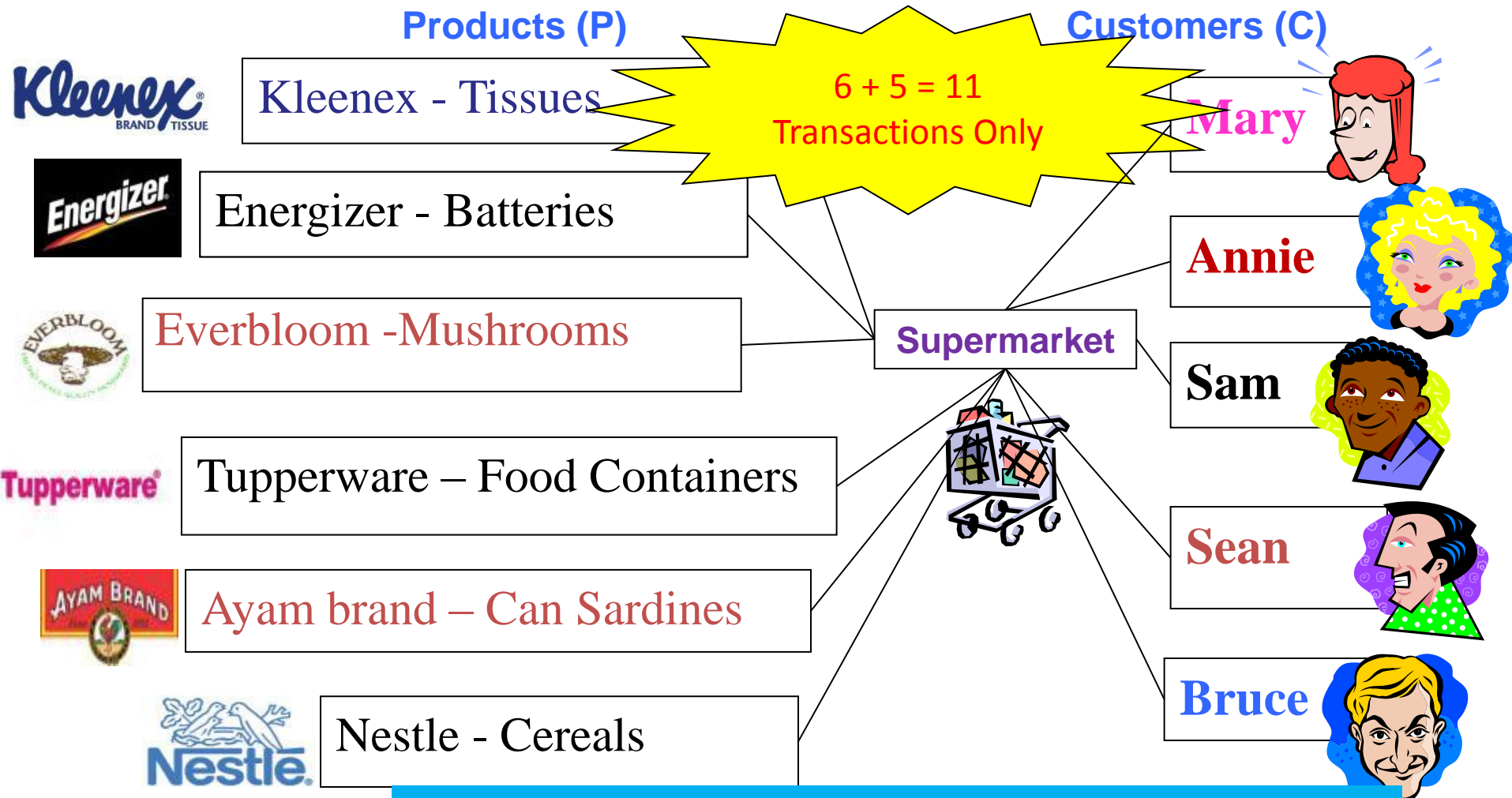


Bruce



$6 \times 5 = 30$   
Transactions

# Number of Channels With Intermediary

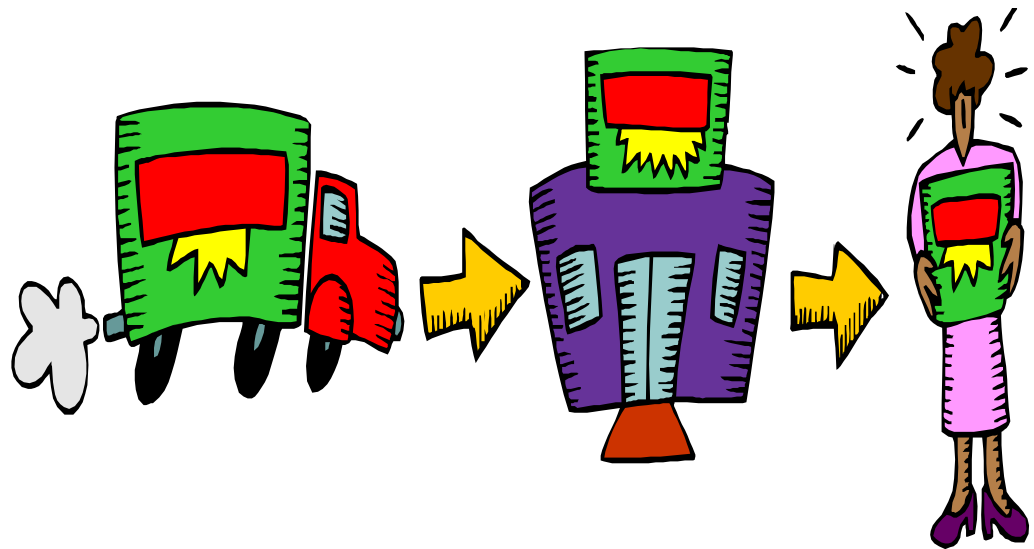


**Transactions reduced drastically with intermediary**

# Main Types of Channel Intermediaries



- Wholesalers/Distributors
- Agent/ Brokers
- Retailers



# Channel Intermediaries (Wholesalers/Distributors)

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- Break down 'bulk'
- Buy from producers and sell small quantities to retailers
- Provide storage facilities
- Reduce contact cost between producer and consumer
- Wholesaler takes some of the marketing responsibility e.g. sales force, promotions
- Distribution Centre can be owned by retailer

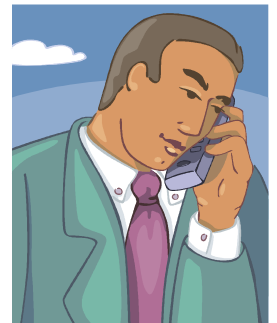


# Channel Intermediaries (Agents/ Brokers)

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- Mainly used in international markets
- Commission agent - does not take title of the goods. Secures orders.
- Stockist agent - hold 'consignment' stock
- Main contact point for a specialist product
  - E.g. specialist telecommunication equipment
- Control may be difficult due to cultural differences
- Training, motivation, etc are expensive



# Channel Intermediaries (Retailers)

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- Much stronger personal relationship with the consumer
- Hold a variety of products
- Offer consumers credit
- Promote and merchandise products
- Price the final product
- Build retailer 'brand' in the high street
- E.g. Department stores, Chain stores



# Advantages of Channel Intermediaries

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Channel intermediaries or 'middlemen' offer a variety of services

- ✓ Providing variety for the consumer
- ✓ Breaking bulk to easily manageable quantities
- ✓ Assisting promotional activities
- ✓ Enabling wider geographic dispersion
- ✓ Making the purchase process faster and easier for customers
  - E.g. Provide credit, repair & maintenance, communication functions



# Selection of Channel Intermediaries

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## Some Considerations...

- Market Coverage
- Sales Forecast
- Cost
- Other resources
- Profitability
- Control
- Motivation
- Reputation
- Competition
- Contracts



# What is a Distribution Channel?



- A channel of distribution is **a series of firms or individuals** that facilitates the movement of a **product** from the producer to the final customer



# Direct Channel

Producer (E.g. Dell Computer, Tailor Shops)



Customers



# Indirect Channel

- May include one or more channel intermediaries to help move the product to the end-consumers



Producer  
E.g. Toy factory

Retailers  
Toy shop

Customers  
Customers

# Function of Distribution Channel

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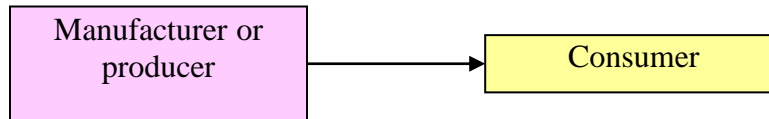
Create efficiencies by reducing the number of transactions through:

- a) **Breaking bulk** – Wholesalers and retailers purchase large quantities of goods from manufacturers but sell only one or a few at a time to customers.
- b) **Creating assortments** – Provide a variety of products in one location so that customers can conveniently buy many different items from one seller at one time.

# Typical Distribution Channel Configurations



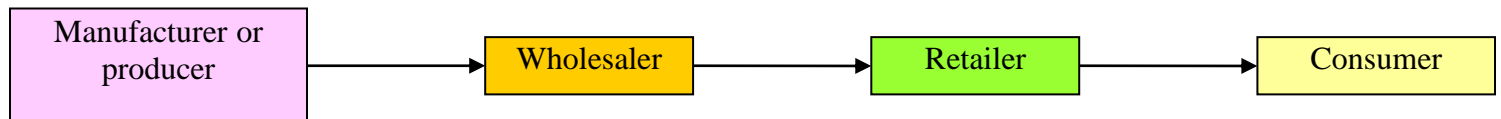
Channel 1



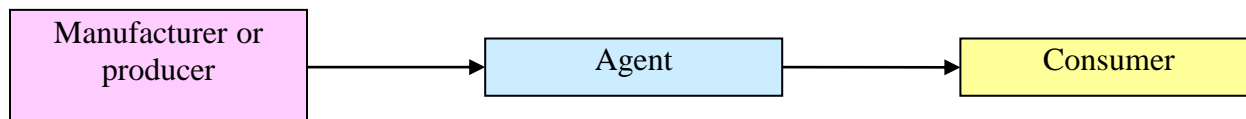
Channel 2



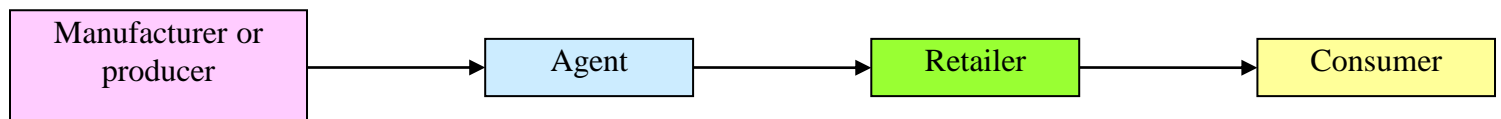
Channel 3



Channel 4



Channel 5



# Channel Partners and Their Involvement

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- Types of Flow moving up and down the channels include:
  - **Physical flow**: physical movement of goods
  - **Title flow**: negotiation, ownership, risk sharing
  - **Payment flow**: financing scheme & payment
  - **Information flow**: order spec, order fulfillment, etc
  - **Promotion flow**: advertising and customer support.
- Channel partners are involved in various degree for all these flows

# Channel Partners and Their Involvement



<b>Manufacturer</b>	<b>3<sup>rd</sup> Party Logistics</b>	<b>Distributors</b>	<b>Wholesalers / Retailers</b>
Physical	Physical	Physical	Physical
Ownership	Information	Ownership	Ownership
Risk sharing	Order processing	Information	Information
Information		Payment	Payment
Promotion		Negotiation	Negotiation
Negotiation		Risk Sharing	Risk Sharing
		Promotion	Promotions
		Order Placement	Order Placement

# Selection of Distribution Channel

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When selecting a channel of distribution, Management must consider

- (a) Market coverage objectives
- (b) Product characteristics
- (c) Customer service objectives
- (d) Profitability

# Market Coverage Objectives

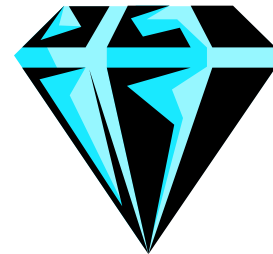


<b>Intensity Level</b>	<b>Objective</b>	<b>Number of Intermediaries</b>
<i>Intensive</i>	Achieve mass market selling. Convenience goods.	Many
<i>Selective</i>	Work with selected intermediaries. Shopping and some specialty goods.	Several
<i>Exclusive</i>	Work with single intermediary. Specialty goods and industrial equipment.	One

# Product Characteristics



- Value
- Technicality
- Perishability
- Seasonality
- Product Range



# Customer Service Objectives



Customer service level	Explanation
<b>Level of product availability</b>	If stock out is unacceptable, the channel selected must carry the buffer stock along the distribution channel. Normally stock is carried by the retailers as they are “nearest” to customers
<b>Strong communication with customers</b>	It can be achieved if the product is priced rather high. The profit margin will be sufficient to cover the cost of having additional resources providing service to customers.
<b>Speed and consistency of customers order cycle</b>	<ol style="list-style-type: none"><li>1. Order cycle expectation is known.</li><li>2. Ability to meet the order cycle agreed upon.</li></ol>



# Profitability

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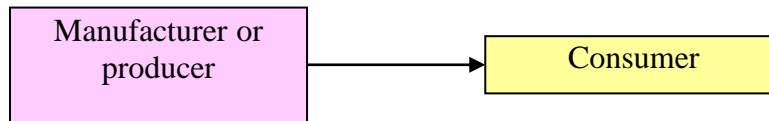
- Research on profitability of various channel of distributions is done
- Market research to estimate revenue for each channel structure
- Profitability of distribution channels and estimated future revenue from market research is used to select the best distribution channel



# Problem Statement



Channel 1

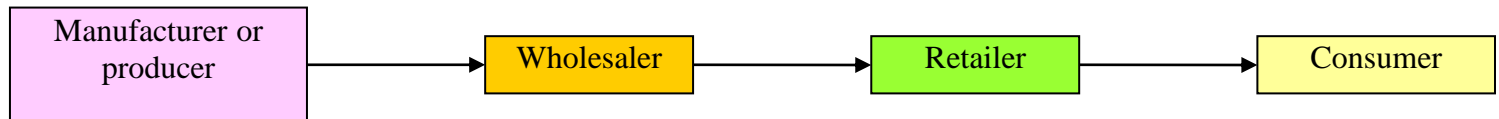


Channel 2



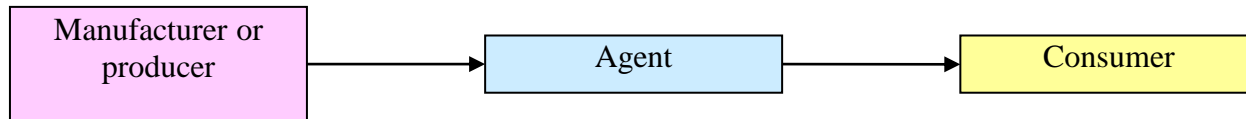
**Existing distribution channel**

Channel 3

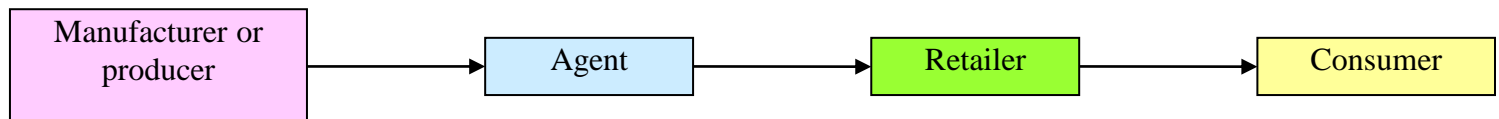


**Proposed distribution channel**

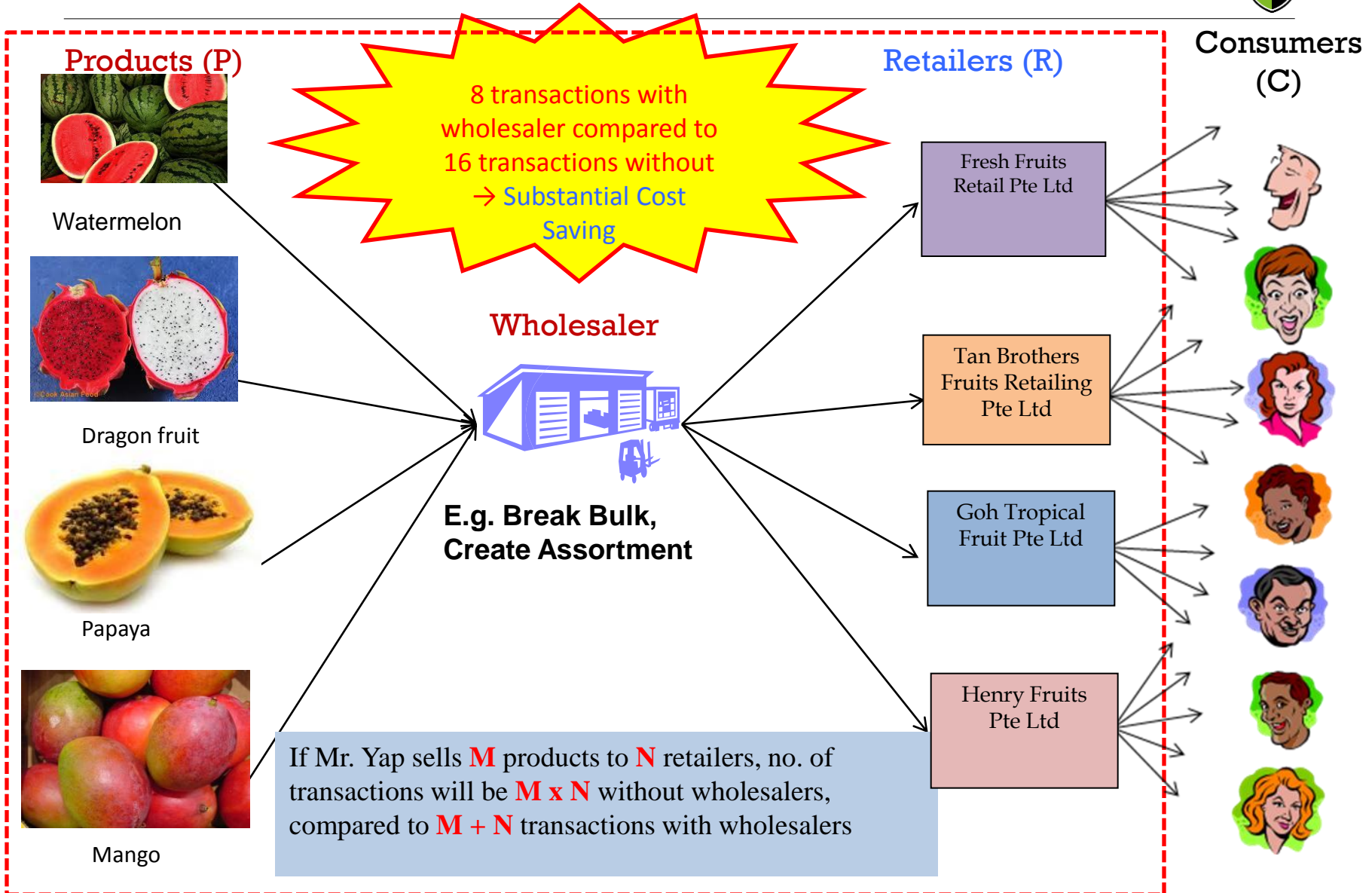
Channel 4



Channel 5



# Problem Statement



# Learning Outcome

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- Functions of distribution channels
- Types of channel intermediaries
- Channel partners and their involvement
- Selection and evaluation of distribution channels

